

**SOUTH CAROLINA OFFICE OF THE  
ADJUTANT GENERAL**

**COLUMBIA, SOUTH CAROLINA**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2012**

*State of South Carolina*



*Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

June 28, 2013

Major General Robert E. Livingston, Jr.  
Adjutant General  
State of South Carolina  
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Office of the Adjutant General for the fiscal year ended June 30, 2012, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/trb

## CONTENTS

|  | <u>PAGE</u> |
|--|-------------|
| I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING<br>AGREED-UPON PROCEDURES | 1-4         |
| II. ACCOUNTANT'S COMMENTS  | 5           |
| SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS                | 6           |
| REPORTING PACKAGES   | 7           |
| SECTION B - OTHER WEAKNESSES   | 8           |
| CASH RECEIPTS  | 9           |
| CUTOFF   | 9-10        |
| SECTION C - STATUS OF PRIOR FINDINGS                                     | 11          |
| MANAGEMENT'S RESPONSE  | 12          |



## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 28, 2013

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Office of Adjutant General (the Agency) and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2012, in the areas addressed. The Agency's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current fiscal year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior fiscal year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$69,000 – earmarked fund, \$15,000 – restricted fund, and \$726,000 – federal fund) and  $\pm$  10 percent.

- We made inquiries of management pertaining to the Agency's policies for accountability and security over renting armories. We observed Agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Cash Receipts and Cutoff in the Accountant's Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Agency's policies and procedures and State regulations, were bona fide disbursements of the Agency, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current fiscal year expenditures at the subfund and account level to those of the prior fiscal year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$77,000 – general fund, \$118,000 – earmarked fund, \$15,000 – restricted fund, and \$526,000 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Agency's policies and procedures and State regulations.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

- We compared current fiscal year payroll expenditures at the subfund and account level to those of the prior fiscal year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$77,000 – general fund, \$118,000 – earmarked fund, \$15,000 – restricted fund, and \$526,000 – federal fund) and  $\pm 10$  percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these procedures.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the Agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the Agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of these procedures.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
State of South Carolina  
June 28, 2013

6. **Appropriation Act**

- We inspected Agency documents, observed processes, and/or made inquiries of Agency personnel to determine the Agency's compliance with Appropriation Act general and Agency specific provisos.

We found no exceptions as a result of these procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the fiscal year ended June 30, 2012, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

8. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures on the Agency for the fiscal year ended June 30, 2010, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the fiscal year ended June 30, 2011.

We found no exceptions as a result of these procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, Office of the State Auditor, and 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.



Columbia, South Carolina  
June 28, 2013

**ACCOUNTANT'S COMMENTS**

**SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS**

Management of each State Agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the Agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

## **REPORTING PACKAGES**

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "each Agency's director and financial director are responsible for submitting to the Comptroller General's Office reporting package forms and/or financial statements that are accurate and prepared in accordance with instructions, complete, and timely." Our procedures related to the Agency's reporting packages disclosed one exception.

The Agency's attorney did not sign and date the "Settled Litigation Report Form" to acknowledge the existence of a liability or to confirm that the information provided was correct. Management of the Agency indicated that the attorney was unavailable to sign off, so additional information was provided to support the information included on the "Settled Litigation Report Form". It is important for the attorney to sign the "Settled Litigation Report Form" because his signature provides third-party evidence that the information provided therein is accurate.

We recommend that the Agency develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. We also recommend that the Agency make the appropriate adjustment to the future reporting package, if necessary, to correct the error identified above.

## **SECTION B - OTHER WEAKNESSES**

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

## **CASH RECEIPTS**

Documentation to support the purpose and nature of revenue transactions should be maintained so that there is evidence that the transaction occurred. We selected a random sample of twenty-five cash receipts and noted one for \$1,095 included three types of revenue sources. One of these three revenue sources related to a court fine for \$95 charged to a soldier by one of the Agency's armories. We noted that the Agency did not have any documentation on file to support this transaction.

The Agency does not require its armories to submit supporting documentation for its cash receipts. This increases the risk of cash being misappropriated at the Agency's armories. We recommend that the Agency require all of its armories to submit all documentation that supports any given revenue transaction to ensure that each revenue transaction is properly accounted for.

## **CUTOFF**

In accordance with generally accepted accounting principles, revenue should be recorded and posted to the general ledger when it is earned. The earnings process becomes complete when a service is provided. We selected a random sample of ten cash receipts (five recorded before June 30, 2012 and five recorded after June 30, 2012) for cutoff accuracy and noted one for \$15,281 related to revenue that was recorded on the general ledger during fiscal year 2012 when the supporting invoice indicated that the services were provided during fiscal year 2011. The revenue recorded from this transaction was improperly included on the Agency's general ledger for the fiscal year ended June 30, 2012.

## **CUTOFF, CONTINUED**

The Agency does not have procedures in place for reviewing its cash receipts transactions recorded near year-end to determine which accounting period the associated revenue relates to. It posts the revenue to the general ledger upon posting the cash receipt. As a result of this finding, revenue as reported by the Agency for the fiscal year ended June 30, 2012 was overstated by \$15,281. To prevent revenues from being misstated, we recommend that the Agency implement procedures for reviewing its cash receipts transactions recorded near year-end to ensure each is supported by documentation and that the associated revenue is recorded on the general ledger during the period for which it is earned.

## **SECTION C - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures on the Agency for the fiscal year ended June 30, 2010, and dated June 10, 2011. We applied no procedures to the Agency's accounting records and internal controls for the fiscal year ended June 30, 2011. We determined that the Agency has taken adequate corrective action on each of the findings reported for the fiscal year ended June 30, 2010.

**MANAGEMENT'S RESPONSE**

The State of South Carolina  
Military Department



ROBERT E. LIVINGSTON, JR  
MAJOR GENERAL  
THE ADJUTANT GENERAL

OFFICE OF THE ADJUTANT GENERAL  
1 NATIONAL GUARD ROAD  
COLUMBIA, S.C. 29201-4766

LESTER D. EISNER  
MAJOR GENERAL  
DEPUTY ADJUTANT GENERAL

JUNE 28, 2013

Mr. Rich Gilbert  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Re: the possible exceptions and o/s items –

Mr. Gilbert

Cash Receipts Testing  
WP 2005

Exception: Documentation for a soldier fine was not scanned into SCEIS.  
Response: Documentation had not been required. However, beginning with our new fiscal year (7/1/14) documentation to support all receipt amounts submitted by the armories will be required.

Closing Package Testing  
WP 2601

Exception: Settled Litigation Report Form (3.13.3) was not signed/dated by agency attorney.  
Response: Last year was the first year that the form required an attorney's signature. When the reporting package was completed the attorney was unavailable to sign prior to the due date for the report. Now that we are aware of this requirement, we will allow enough time to obtain any required attorney signatures.

O/S Items  
WP 2006

Revenue recorded in FY12 that was a receivable at June 30, 2011 for sale of meals.  
Response: The payment for the sale of meals in June was not received through the EFT process until 9/13/2011 which is why it is recorded as revenue in FY12. For year-end reporting purposes I analyze transactions and report A/R at 6/30 through the Miscellaneous Receivable Reporting Package. However, the agency is not required by the OCG to record revenue for receivables at 6/30. The OCG uses the reporting package to adjust SCEIS account balances for CAFR purposes.

Sincerely

A handwritten signature in black ink, appearing to read "Frank L. Garrick".

Frank L. Garrick, CFO  
Office of the Adjutant General, State Operations