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*South Carolina Department of Insurance*

Columbia, South Carolina

Independent Accountant's Report on Applying Agreed-Upon  
Procedures for the year ended June 30, 2009

*State of South Carolina*



*Office of the State Auditor*

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July 20, 2010

The Honorable Mark Sanford, Governor  
and  
Mr. Scott Richardson, Director  
South Carolina Department of Insurance  
Columbia, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Insurance for the fiscal year ended June 30, 2009, was issued by Brown CPA, LLC, Certified Public Accountant, 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/sag

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

Mr. 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 the South Carolina Office of State Auditor and management of South Carolina Department of Insurance (the "Department"), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2009, in the areas addressed. The Department 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 Department'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 compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, and restricted funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$1,000,000 - general fund, \$69,000 - earmarked fund, and \$23,000 - restricted fund and  $\pm$  10 percent.
- We made inquiries of management pertaining to the Department's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Department personnel performing their duties to determine if they understood and followed the described policies.
- We performed procedures to ensure that revenue allocations were correctly distributed from the revenue clearing account to the various revenue accounts.

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

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SOUTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

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## 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 Department's policies and procedures and State regulations, were bona fide disbursements of the Department, 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$43,000 – general fund, \$69,000 – earmarked fund, and \$20,000 – restricted fund, and  $\pm 10$  percent.

The individual transactions selected were chosen systematically. We found no exceptions as a result of the 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 Department's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- 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 Department'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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels \$43,000 – general fund, \$69,000 – earmarked fund, and \$20,000 – restricted 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  $\pm 15$  percent to ensure that payroll expenditures were classified properly in the Department's accounting records. The individual transactions selected were chosen systematically. We found no exceptions as a result of the 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 Department's policies and procedures and State regulations. The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

#### **5. General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department 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 Department's policies and procedures and State regulations. The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

#### **6. Appropriation Act**

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

We found no exceptions as a result of the procedures.

#### **7. Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009 prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

#### **8. Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section from the Department's previous agreed-upon procedures report for the fiscal year ended June 30, 2007, the last engagement performed, to determine if the

Department had taken adequate corrective action.  
We found no exceptions as a result of the 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, the South Carolina Office of the State Auditor, and the Director and management of the Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

BROWN CPA, L.L.C.

Irmo, South Carolina  
July 9, 2010

## ACCOUNTANT'S COMMENTS

### 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 at the Department of Insurance for the fiscal year ended June 30, 2007 (the last year performed), and dated May 28, 2008. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2008. The following is the status of each comment for the year ended June 30, 2007.

### RECONCILIATIONS

#### Comment

#### Status

1. Cash reconciliations were not prepared.
2. Expenditure and revenue reconciliations for several months were not consistently signed by both the preparer and the reviewer.
1. Several FM13 cash and revenue accounts did not agree to the Comptroller General's reports. The Department could not explain the variances.

Reconciliations are no longer needed as the Department is now on the SAP Statewide Accounting System

### PAYMENT OF INVOICES

#### Comment

#### Status

During our Test of Disbursements, we noted that one voucher out of 25 tested was not submitted to the Comptroller General's Office for payment within 30 days of receipt of goods and/or services. We also noted this same exception for two vouchers out of 25 tested in our Cut-Off Test of Expenditures. The two vouchers were also not paid in the correct fiscal year. The original invoices were held by other departments and were not forwarded to the finance department in a timely manner, causing a delay in payment

Corrective Action Taken

## **TRAVEL REIMBURSEMENT**

### **Comment**

### **Status**

#### **Mileage Reimbursement**

Corrective Action Taken

The Department uses a conversion formula approved by the Comptroller General's Office to reimburse insurance examiners for mileage incurred during examinations because the National Association of Insurance Commissioners (NAIC) allows a higher mileage rate than the maximum rate allowed by the State's travel regulations. During our Test of Disbursements, we noted that for four of the 25 vouchers tested, the Department did not document this conversion formula on the travel voucher; therefore we could not determine the actual miles incurred by the examiner or if the converted miles were calculated accurately

#### **Travel Voucher**

Corrective Action Taken

During our Test of Disbursements we noted that for one voucher out of 25 tested, a \$12 reimbursement for meals was posted to object code 0501, In-State Meals-Non-Reportable, but should have been posted to object code 0520, In-State Meals – Reportable, because the employee was not in travel status overnight.

## **LEGAL SERVICES**

### **Comment**

### **Status**

Corrective Action Taken

The Department paid for certain legal services that were not authorized by the South Carolina Attorney General's Office (AGO). The Department submitted a "South Carolina Attorney General Request for Authorization to Employ Associate Counsel" form to the AGO requesting approval of attorney services for the period July 1, 2006 through June 30, 2007 on August 15, 2006. The AGO approved the request on August 29, 2006. The AGO approved a maximum compensation of \$40,000. We determined that the Department paid legal fees totaling \$48,507.

## PAYROLL

### Comment

### Status

#### Documentation of Hourly Rate

We could not locate documentation in the employee's personnel file to support the hourly rate paid to one of the 25 employees tested in our Test of Payroll.

Corrective Action Taken

#### Justification of Salary Increase

For one of the 25 employees tested in our Test of Payroll, the Department could not provide documentation supporting a .48% salary increase.

Corrective Action Taken

## CLOSING PACKAGE

### Comment

### Status

#### DEPRECIATION OF INTANGIBLE ASSETS

During our test of the capital assets closing package, we noted that the Department assigned a useful life of seven years to two intangible assets (computer software). The Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) instructions specifies that externally acquired computer software with a cost of \$100,000 or more be depreciated using a useful life of three years. Because the Department assigned the assets a seven year life depreciation expense was overstated by \$149,925 and accumulated depreciation was understated by \$375,513. Furthermore, the assets were purchased in 2003 and 2004 and therefore should have been fully depreciated before fiscal year 2007.

Corrective Action Taken

## JOURNAL ENTRIES

### Comment

### Status

During our test of journal entries we noted 24 out of 25 journal entry documents tested did not contain evidence of proper approval. According to Department personnel, there is no formal policy regarding approval of journal entry documents. Additionally, the Department could not locate one of the journal entries we selected for testing.

Corrective Action Taken

**REVENUE TRANSACTIONS**

**Comment**

**Status**

**SUPPORT FOR RECEIPT TRANSACTIONS**

Corrective Action Taken

The Department could not provide us with documentation to support 3 out of 25 receipt transactions tested in our Test of Cash Receipts. Therefore, we were unable to determine if the revenue was deposited in a timely manner or if the amount of revenue received was in accordance with Department regulations.

**BAIL BONDSMAN REVENUE**

Corrective Action Taken

The Department receives revenue for bail bondsman and runner licenses. This revenue is first recorded into a decentralized receipts system and then into the BARS accounting system by batches. During our review of this revenue account we noted that the total revenue recorded in the decentralized system did not agree to total revenue recorded in BARS or posted to the Comptroller General's CSA 406 report. Therefore we were unable to determine whether revenue had been recorded accurately in the Department's book of record.