

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

STATE AUDITOR'S REPORT

JUNE 30, 2015

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 10, 2016

The Honorable Nikki R. Haley, Governor
and
Mr. Raymond G. Farmer, Director
South Carolina Department of Insurance
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the 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, 2015, in the areas addressed. The Department'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 twenty-five 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 twenty-five 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 year recorded revenues at the subfund and account 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$987,800 – general fund, \$56,500 – earmarked fund, and \$21,200 – restricted fund) and ± 10 percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency 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.
- We performed procedures to ensure that distributions of aid to subdivisions were proper and in compliance with applicable State law.

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

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

- We inspected twenty-five 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 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 twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$31,700 – general fund, \$68,300 – earmarked fund, and \$21,100 – restricted fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and payroll transactions 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 five selected new employees and five individuals 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 year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$31,700 – general fund and \$68,300 – earmarked fund) and ± 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 ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.
- We inspected five selected bonus pay disbursements to determine that the selected bonus did not exceed \$3,000; agreed to supporting documentation; was properly approved; and was not awarded to an employee earning a salary greater than \$100,000.

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

4. **Journal Entries and Interagency Appropriation/Cash Transfers**

- We inspected twenty selected recorded journal entries and all interagency appropriation/cash 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 the procedures.

5. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Reporting Packages and Account Coding in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Raymond G. Farmer, Director
South Carolina Department of Insurance
August 10, 2016

7. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the Department had taken corrective action.

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

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 \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 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 tested 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.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 and 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.



George L. Kennedy, III, CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS 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 conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

REPORTING PACKAGES

Condition:

We noted the following during our testing of the Department's fiscal year 2015 reporting packages:

1. On Form 3.02.1 (Tax Receivables Summary Form) the Department incorrectly reported amounts for Broker Premium Tax Gross Receivables, Net Receivable and Current Receivable. The Department reported \$7,301,375; however, \$7,314,707 should have been reported.
2. On Form 3.09.1 (Operating Leases Summary Form – Lessee) the Department incorrectly reported amounts for One Time Rental Payments, Payments for Supplies and Other Billing Charges and Required Minimum Lease Payments for Operating Leases.
3. On Form 3.09.1a (Operating Leases Future Minimum Payment Schedule) the Department incorrectly reported the amount of Current Expense. In addition, the Department incorrectly reported future minimum lease payments for fiscal year 2017.

Cause:

1. The Department incorrectly calculated the amount of Surplus Line Premium Taxes which was subsequently used in the calculation of the broker premium tax receivable amount.
2. Department personnel stated various rental payments were misclassified due to oversight.
3. Current expense was reported incorrectly due to misclassification of rental payments. Future minimum lease payments were incorrect because the Department inadvertently swapped the effective dates when completing the reporting package.

Effect:

1. Broker premium tax receivables were understated by \$13,332 on Form 3.02.1.
2. One Time Payments and Other Adjustments were understated by \$2,025 and \$22,948, respectively. Payments for Supplies and Other Operating Charges and Required Minimum Lease Payments were overstated by \$15,923 and \$8,981, respectively, on Form 3.09.1.
3. Total current expense was also overstated by \$8,981 on Form 3.09.1a. Total fiscal year 2017 future minimum lease payments were overstated by \$518 on Form 3.09.1a.

Criteria:

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely."

Recommendation:

We recommend the Department strengthen its procedures to ensure reporting packages are prepared and completed in accordance with the Comptroller General Reporting Policies and Procedures Manual. Department personnel responsible for completing and reviewing the reporting packages should review instructions for completing packages and compare the supporting working papers prior to submission to eliminate errors.

Management's Response:

1. Tax Receivables Summary Form:
 - a. This was caused when a scanned document's number was incorrectly read as "\$10,875,605.69" instead of "\$10,895,605.69." The General Funds portion (4%) resulted in an understatement of Tax Receivables of \$13,332.
2. Operating Leases Summary Form:
 - a. This finding is related, primarily, to the Account Coding finding below. Additionally, parking included with rents for the Columbia and Charleston Offices were included as operating lease rental payments instead of one-time rentals.
3. Operating Leases Future Minimum Payment Schedule
 - a. This finding relates to the miscoding's from the Account Coding finding below and the Operating Leases Summary form above.

ACCOUNT CODING

Condition:

During our testing of the Operating Leases Reporting Package, we noted maintenance agreement payments for a copier were coded to G/L Accounts 5040050000 (Rental – Contingent Rental Payments) and 5040020000 (Rent – Copying Equipment) instead of G/L Account 5020020000 (Copying Equipment Services). Additionally, during our testing of this reporting package as well as our Cut-Off Test of Disbursements, we noted fixed copier rental payments were coded to G/L Account 5040050000 (Rental – Contingent Rental Payments) instead of G/L Account 5040020000 (Rent – Copying Equipment).

Cause:

Department personnel stated incorrect guidance was given regarding the coding of rental payments.

Effect:

The Department was not in compliance with the Comptroller General's Policies and Procedures.

Criteria:

The Comptroller General's Policies and Procedures provide account code definitions to help agencies determine the proper account code and ensure consistent account treatment.

Recommendation:

We recommend the Department ensure the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

Management's Response:

The Department has been using GL Account 5020020000 (Copying Equipment Services) prior to/during FY15. However, the CG's office called to our attention and informed us that we were not using the correct GL account and should use 5040050000 (Rental-Contingent Rental Payments) for copiers that charge by the meter and 5040020000 (Rental-Copying Equipment) for those that do not. This was pointed out to the auditors. We have already corrected FY16's account coding by performing journal entries to move all 5040050000 and 5040020000 to 5020020000 for the vendors and invoices in question.

SECTION B - 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 State Auditor's Report on the Department for the fiscal year ended June 30, 2014, and dated April 20, 2015. We determined the Department has taken adequate corrective action on the deficiencies titled Timely Payment of Invoices, Petty Cash Approval, Attorney Fees, Subsequent Events Questionnaire, and Bail Bondsman Revenue. However, we determined the finding titled Operating Leases still exists; consequently we have reported a similar finding titled Reporting Packages in Section A of the report.

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