

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF MOTOR VEHICLES  
BLYTHEWOOD, SOUTH CAROLINA*

For The Year Ended June 30, 2011

*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 5, 2012

The Honorable Nikki R. Haley, Governor  
and  
Mr. Kevin A. Shwedo, Executive Director  
South Carolina Department of Motor Vehicles  
Blythewood, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records of the South Carolina Department of Motor Vehicles for the fiscal year ended June 30, 2011, was issued by The Hobbs Group, P.A., 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/cwc

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BLYTHEWOOD, SOUTH CAROLINA  
For the Year Ended June 30, 2011

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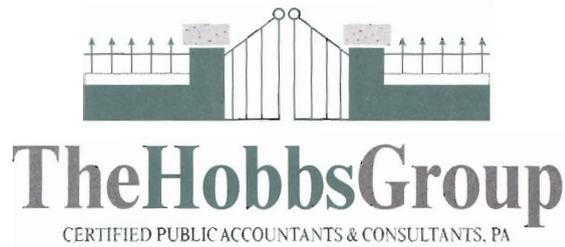
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1704 Laurel Street  
Columbia, SC 29201

P.O. Box 2411  
Columbia, SC 29202



Phone (803) 799-0555  
Fax (803) 799-4212

www.hobbsepa.com

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

May 15, 2012

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

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of the South Carolina Department of Motor Vehicles ("*the Department*"), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2011, 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 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 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 fund level from sources other than State General Fund appropriations to those of the prior 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 (\$1,275,000 – earmarked fund, \$120,000 – restricted fund, and \$39,000 – federal fund) and  $\pm 10$  percent.

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 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 South Carolina Department of Motor Vehicles, 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 year expenditures at the fund 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 for the operating fund (\$621,000 – earmarked fund, \$66,000 – restricted fund, and \$18,000 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. 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 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 employee's first and/or last paycheck 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 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$621,000 – earmarked fund, \$66,000 – restricted fund, and \$18,000 – 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 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 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.

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

- We inspected selected entries and monthly totals in the subsidiary records of the South Carolina Department of Motor Vehicles 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 the procedures.

#### **5. Composite Reservoir Accounts**

##### *Reconciliations*

- We obtained all monthly reconciliations prepared by the South Carolina Department of Motor Vehicles for the year ended June 30, 2011 and inspected selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records.

##### *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 obtained all monthly reconciliations prepared by staff.

- We tested transfers between accounts to determine if the amounts were accurately transferred between accounts.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliation of Composite Reservoir Accounts in the Accountants' Comments section of this report.

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

- We inspected Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general and agency 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, 2011, prepared by the South Carolina Department of Motor Vehicles 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. Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2011, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

#### **9. 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 South Carolina Department of Motor Vehicles resulting from the engagement for the fiscal year ended June 30, 2008, to determine if the Department had taken corrective action. We applied no procedures to South Carolina Department of Motor Vehicles' accounting records and internal controls for the years ended June 30, 2009 and 2010.

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.

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
May 15, 2012

This report is intended solely for the information and use of the Governor, the South Carolina Office of the State Auditor and the management of the South Carolina Department of Motor Vehicles and is not intended to be and should not be used by anyone other than these specified parties.

*The Hobbs Group, P.A.*

The Hobbs Group, PA  
Columbia, South Carolina

## ACCOUNTANTS' COMMENTS

## SECTION A – OTHER WEAKNESS

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 while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

## RECONCILIATION OF COMPOSITE RESERVOIR ACCOUNTS

We reviewed the reconciliations of the Department's composite reservoir accounts. We were provided with reconciliations for the last quarter of the fiscal year only. Reconciliations prior to March of 2011 were supposed to be prepared by managers of the project team for the Internal Audit Department. No evidence can be found of the reconciliations being prepared for this time period. The responsibility of reconciling the composite reservoir accounts transferred back to the Finance staff March 2011, however, due to an oversight the reconciliation was not prepared for that month. During our review of the reconciliations of the last quarter, we noted the reconciliations did not include a date to determine if the reconciliation was prepared and reviewed in a timely manner. A sound system of internal controls includes policies to ensure that errors are detected and timely corrected by management or employees in the normal course of performing their assigned functions. Preparation of a monthly reconciliation that is signed and dated by the preparer and reviewer provides evidence of the existence of an internal control that is designed to detect errors.

We recommend the Department implement procedures to require both the preparer and the reviewer to sign and date the reconciliations.

## 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, 2008, and dated March 16, 2009. We applied no procedures to the Department's accounting records and internal controls for the years ended June 30, 2009 and 2010. We determine that the Department has taken adequate corrective action on the findings.

## MANAGEMENT'S RESPONSE



*State of South Carolina*  
*Department of Motor Vehicles*

May 30, 2012

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

The SC Department of Motor Vehicles offers the following comment in response to the weakness noted in the Accountant's Comments section of the draft report resulting from the performance of agreed-upon procedures on the accounting records of the Department for the fiscal year ended June 30, 2011.

**Reconciliation of Composite Reservoir Accounts:** The DMV Project Management Division was responsible for the reconciliation of the Composite Reservoir Accounts during the first three (3) quarters of fiscal year 2011. The individuals responsible for this process during this timeframe are no longer with the Agency and Finance Staff could not find evidence of completed reconciliations. The Finance Division took responsibility for the reconciliation process in April 2011 and thus provided the auditors those reconciliations. The Department agrees with the auditor's recommendation to sign and date the reconciliations to ensure reconciliations are complete, accurate, and timely.

I would like to thank your staff for their cooperation and assistance provided to the Department during this engagement. Your guidance and the commitment of DMV's administrative staff will sustain DMV in our efforts to improve operations and strive to ultimately reduce, if not eliminate, any weaknesses of internal controls.

If you should have any questions or need to discuss any of the information provided in this response, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin A. Shwedo".

Kevin A. Shwedo  
DMV Executive Director