

**SOUTH CAROLINA DEPARTMENT OF REVENUE**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**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  
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May 30, 2012

The Honorable Nikki R. Haley, Governor  
and  
Mr. James F. Etter, Director  
South Carolina Department of Revenue  
Columbia, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records of the South Carolina Department of Revenue for the fiscal year ended June 30, 2011, 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

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

May 14, 2012

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 Department of Revenue (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, 2011, 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 object code level from sources other than State General Fund appropriations to those of the prior fiscal year. We investigated changes in the earmarked funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels of \$247,800 and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 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 non-payroll expenditures at the subfund and object code level to those of the prior fiscal year. We investigated changes in the general and earmarked funds to ensure that non-payroll expenditures were classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$39,900 – general fund and \$210,700 – earmarked 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 object code level to those of the prior fiscal year. We investigated changes in the general and earmarked funds to ensure that payroll expenditures were classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$366,800 – general fund and \$11,900 – earmarked fund) and  $\pm 10$  percent.

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State of South Carolina  
May 14, 2012

- 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. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.

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. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Agency for the fiscal year ended June 30, 2011, and inspected selected reconciliations of balances in the Agency'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 Agency'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 Agency'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.

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Deputy State Auditor  
State of South Carolina  
May 14, 2012

- 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 the Agency.

*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.

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

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. **Closing Packages**

- We obtained copies of all closing packages as of and for the fiscal year ended June 30, 2011, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting work papers and accounting records.

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

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
State of South Carolina  
May 14, 2012

8. **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 of Revenue resulting from the engagement for the fiscal year ended June 30, 2009, 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, 2010.

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, management of the South Carolina Department of Revenue and State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Elliott Davis, LLC*

Columbia, South Carolina  
May 14, 2012

**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.

## CLOSING PACKAGES

Section 1.7 of the Comptroller General's Closing Procedures Manual states that "each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing 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 closing packages disclosed the following exceptions:

- The Agency did not prepare the master closing package as instructed by the Office of the Comptroller General as follows:
  - The Agency did not provide answers to sub-questions (11)(A)(II) and (11)(B) when it answered "yes" to question (11).
  - The Agency did not provide an answer to sub-question (24)(C) when it answered "yes" to question (24).
  - The Agency did not provide an answer to sub-question (27)(B) when it answered "yes" to question (27).
- The Agency reported capital asset retirements as positive numbers on its capital assets summary form. As a result, its capital assets were overstated by \$290,826 as of June 30, 2011.
- The Agency did not submit its accounts payable reporting package to the Office of the Comptroller General by the September 15, 2011 due date. It submitted these forms on September 16, 2011.

We recommend that the Agency develop and implement procedures to ensure that all closing packages are completed in accordance with the Office of the Comptroller General's Closing Procedures Manual instructions. Also, we recommend that the

Agency make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

## **SECTION B - OTHER WEAKNESS**

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.

## **PAYROLL**

We examined a random sample of twenty-five terminated employee payroll transactions that consisted of twenty-five terminated employees. When examining these transactions, we noted the following exceptions:

- One employee's termination form was not signed by all required parties.
- The Agency paid out \$128.25 more in accrued leave than it should have for one employee.

Before an employee is terminated from employment, we recommend the Agency have all responsible parties review and authorize the termination form to ensure the employee is properly removed from the Agency's human resources and payroll systems. This will mitigate the risk of the Agency overpaying former employees, thereby overstating payroll expenditures.

For accrued leave payouts, we recommend the Agency review the calculation generated by the South Carolina Enterprise Information System for accuracy and ensure all system updates are reflected before issuing a check to the terminated employee. This review process will mitigate the risk of the Agency misstating its accrued compensation expense.

A sound internal control system includes procedures that will allow management and employees to detect and correct errors in the normal course of performing their assigned duties.

## **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 State Auditor's Report on the Agency for the fiscal year ended June 30, 2009, and dated September 28, 2010. We applied no procedures to the Agency's accounting records and internal controls for the fiscal year ended June 30, 2010. The findings noted during the prior engagement related to compensated absences, receipt dates and the transfer of hospital taxes. Based on discussions with management and our procedures performed in the areas referenced within the Independent Accountant's Report on Applying Agreed-Upon Procedures, we noted management has effectively mitigated the risk of these findings.

**MANAGEMENT'S RESPONSE**

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State of South Carolina  
Department of Revenue  
301 Gervais Street, P.O. Box 125, Columbia, South Carolina 29214

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May 14, 2012

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

Mr. Gilbert:

Thank you for the opportunity to review and respond to your report on the agreed upon procedures to the accounting records of the South Carolina Department of Revenue for the year ended June 30, 2011. Our comments to each of the findings in the Management's Response section of the report are as follows.

Payroll Disbursements—missing signature on internal termination form

We concur with your finding. The agency has implemented a new process that will ensure that the agency Finance Department is always included in the termination pay calculation process and that all required signatures are obtained on internal pay calculation forms.

Payroll Disbursements—Terminated Employees

We concur with your finding. The agency has changed our internal process for termination pay to insure that similar errors do not reoccur.

Closing Packages

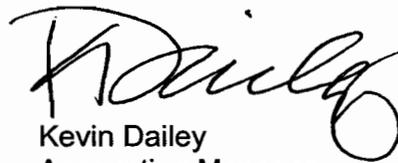
We concur with your finding. The agency Office of Financial Management is aware of the Comptroller General's policy and procedures and deadlines for completing all year-end reporting packages as outlined in the Comptroller General's reporting package procedures manual. The agency has implemented an internal review questionnaire that will be completed by a reviewer prior to submitting each reporting package to insure that all required questions are answered completely and that all mathematical calculations are complete and accurate.

Please contact me or Kevin Dailey if you have questions or comments.

Sincerely,



Laura Watts, CPA  
Chief Financial Officer  
Sr. Administrator, Support Services



Kevin Dailey  
Accounting Manager  
Office of Financial Management