

**SOUTH CAROLINA DEPARTMENT OF REVENUE**

**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*

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

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June 28, 2013

The Honorable Nikki R. Haley, Governor  
and  
Mr. William M. Blume, Jr., Director  
South Carolina Department of Revenue  
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 Department of Revenue 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 AGREED-UPON PROCEDURES	1-5
II. ACCOUNTANT'S COMMENTS	6
SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS	7
REPORTING PACKAGES	8-9
SECTION B - OTHER WEAKNESSES	10
CUTOFF	11
PAYROLL	12
SECTION C - STATUS OF PRIOR FINDINGS	13
MANAGEMENT'S RESPONSE	14



## 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 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, 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 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 (\$396,000 – earmarked fund and \$1,260,000 – restricted fund) and  $\pm$  10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in 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 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 (\$559,000 – general fund and \$406,000 – 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 account level to those of the prior fiscal 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 (\$559,000 – general fund and \$406,000 – earmarked 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. Our finding is 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. **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.

6. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by the Agency for the fiscal year ended June 30, 2012, 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.
- 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.

7. **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.

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

9. **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 of the Agency resulting from our engagement for the fiscal year ended June 30, 2011, to determine if the Agency had taken corrective action.

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

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

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 Department of Revenue, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

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 executive director and finance 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 the following exceptions:

1. The Agency submitted its "Refunds Collected and Related Transactions Form" to the Comptroller General's Office on September 7, 2012 when the due date was August 31, 2012 (Repeat Finding).
2. The Agency did not have a "Prepaid Expense and Other Asset Reporting Package Reviewer Checklist" on file, so there was no indication that the prepaid expense reporting package was properly reviewed before submission to the Comptroller General's Office.
3. The Agency submitted its "Capital Assets Questionnaire" and "Reporting of Adjustments and Errors Identified in SCEIS Asset History Form" to the Comptroller General's Office on September 28, 2012 when the due date was September 20, 2012 (Repeat Finding).
4. We noted the Agency indicated that it had interfund receivables as it prepared an "Interfund Receivables Summary Form". Per the instructions for preparing this form, the Agency is required to provide the name of the fund from which the receivables are due. We noted that this information was not included on the "Interfund Receivables Summary Form".
5. The Agency submitted its "Operating Leases Summary Form - Lessee" and "Operating Leases Future Minimum Payment Schedule" to the Comptroller General's Office on September 5, 2012 when the due date was August 31, 2012 (Repeat Finding).

## **REPORTING PACKAGES (CONTINUED)**

The Agency does not have procedures in place to ensure that all reporting packages include all required information as reflected in the Comptroller General's Reporting Policies and Procedures Manual and that all reporting packages are submitted timely. It is important for the Agency to submit all required information to the Comptroller General's Office in a timely manner so that the Statewide Comprehensive Annual Financial Report reflects accurate financial data related to the Agency.

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 and that all reporting packages are submitted timely. We also recommend that the Agency make appropriate adjustments to future reporting packages, if necessary, to correct the errors 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.

## **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 cash receipt for \$1,357 related to revenue that was improperly included during fiscal year 2012. During fiscal year 2010, an employee was improperly paid for wages and workers' compensation. The employee was informed of this error and this cash receipt represents the employee's repayment to the Agency for the excess wages received during fiscal year 2010. Due to the STARS-SCEIS system transition, the cash receipt could not be deposited with the State Treasurer's Office until fiscal year 2012. Therefore, revenue associated with this cash receipt was overstated on the Agency's general ledger for the fiscal year ended June 30, 2012.

To prevent revenues from being recognized during the wrong accounting period, we recommend that the Agency implement procedures for reviewing its cash receipts transactions recorded near year-end to ensure the associated revenue is recorded on the general ledger during the period for which it is earned. Furthermore, we recommend that the Agency conduct extensive reviews over all accounting functions so that errors can be detected and remediated in a timely manner.

## **PAYROLL**

According to the State's accrued leave policy, eligible employees with less than ten years of service earn 9.375 hours of accrued leave per month. Of the random sample of twenty-four employees who were terminated from employment, seven of them received an annual leave payout. Of these seven, we noted two employees received a total excess payout of \$319 because the employees received a full month's worth of earned leave when they were both terminated during the second week of the month.

The Agency does not have procedures in place to ensure that accrued leave balances reflected on its accounting system are calculated properly before it processes a payment for accrued leave to be issued to eligible terminated employees. As a result, the Agency's payroll expense was overstated by \$319 for the fiscal year ended June 30, 2012 (Repeat Finding).

Before an employee's final annual leave payout is processed, we recommend that the Agency's Payroll Department communicate with its Human Resources Department to review his or her ending accrued leave balance for accuracy. This review process should include looking at the beginning balance reflected as of the beginning of the fiscal year or the date the employee was eligible to earn accrued leave, the amount of accrued leave earned based on the employee's years of experience and the amount of accrued leave taken during the fiscal year prior to being terminated. This will help detect and prevent annual leave payouts from being miscalculated.

## **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, 2011, and dated May 14, 2012. Based on our current fiscal year procedures, we noted certain recurring findings compared to fiscal year 2011. We have identified these repeat findings in the respective sections of this report.

**MANAGEMENT'S RESPONSE**



State of South Carolina  
**Department of Revenue**  
300A Outlet Pointe Blvd., Columbia, South Carolina 29210  
P.O. Box 125, Columbia, South Carolina 29214

C-450 (Rev. 8/29/12) 6371

June 28, 2013

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, 2012. Our comments to each of the findings in the Management's Response section of the report are as follows:

**Closing Packages:**

We concur with your findings. We are aware of the Comptroller General's (CG's) policy and procedures and deadlines for completing all year-end reporting packages as outlined in the CG's reporting package manual. The agency has implemented an internal timeline for completing closing packages and submitting them for final review by the CFO before the due date to the CG's office. A final review of each closing package by the CFO will ensure that the package is complete, accurate, and submitted on time to the CG's Office.

**Cash Receipts Year-end Cutoff**

We concur with your finding that a prior year cash receipt was improperly recorded in FY 12. As you stated in your finding, the accounting department took steps to timely record this cash receipt in the proper period, however, the system transitions from STARS to SCEIS created the delay in depositing this particular employee reimbursement cash receipt to the State Treasurer's Office. This finding reflects SAP system issues and not improper procedures for the DOR accounting department. In addition, DOR has revised procedures that include a more extensive review of accounting transactions for year-end processing.

**Payroll:**

We concur with your finding. The two employees were terminated on 7/7/11 and 9/9/2011, respectively. SCEIS is an automated system that calculates leave accruals and deductions. Prior to May 2012 the system looked at the number of days in the month and once an employee was in a paid status for half of the days of the month, the system would give the employee their monthly accrual. Because we work in arrears, we processed the termination after the system already accrued the employees' leave. SCEIS changed the leave accrual process in the system in 2012 because of the frequency of this type of overpayment. We have provided the auditors with the documentation of this change in SCEIS. At the time that this termination was processed, we used a manual system to verify if the accruals were correct, and did not catch these errors. The payout for each of the individuals affected was incorrect by 9.375 hours.

Please contact me if you have questions or comments.

Sincerely,

Handwritten signature of Laura W. Watts in cursive.

Laura W. Watts, CFO

Handwritten signature of Meredith Cleland in cursive.

Meredith Cleland, Deputy Director  
Administrative Services