

SOUTH CAROLINA DEPARTMENT OF REVENUE

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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

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May 16, 2014

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, 2013, 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 cursive script, appearing to read "Richard H. Gilbert, Jr.", written in black ink.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 16, 2014

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 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, 2013, 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 (\$350,000 – earmarked fund and \$1,000,000 – restricted fund) and ± 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 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 (\$550,000 – general fund and \$400,000 – earmarked fund) and ± 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 (\$550,000 – general fund and \$400,000 – 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 ± 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 these 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 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 individual 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, 2013, 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.

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 and individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Composite Reservoir Account Reconciliations in the Accountant's Comments section of this report.

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, 2013, 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.

We found no exceptions as a result of these 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 of the Agency resulting from our engagement for the fiscal year ended June 30, 2012, to determine if the Agency had taken corrective action.

We found no exceptions as a result of these procedures.

Mr. Richard H. Gilbert, Jr., CPA
South Carolina Office of the State Auditor
May 16, 2014

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 the Office of the State Auditor, 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
May 16, 2014

ACCOUNTANT'S COMMENTS

SECTION A – OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered to be a violation of State Laws, Rules or Regulations.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATION

Reconciling items over one month old should be investigated by the Agency's management to determine what their status is and whether they still remain valid reconciling items. We selected the Agency's June 2013 Bank of America Composite Reconciliation and May 2013 Wachovia Bank EFT Reconciliation to perform our procedures. We noted that the June 2013 Bank of America Composite Reconciliation reflected twenty-seven reconciling items for a total of \$32,422.49 that were dated from January 11, 2013 to May 24, 2013. We noted that the May 2013 Wachovia Bank EFT Reconciliation reflected twenty-seven reconciling items for a total of \$199,170.64. Management of the Agency indicated that these items inappropriately remained on the reconciliations and that the understanding as to why they still remained therein was unknown. In addition to the dated reconciling items, we also noted that the May 2013 Wachovia Bank EFT Reconciliation excluded a reconciling item total for credits not posted by the Agency in the amount of \$(1,179,953.60). This amount was excluded because the reconciliation was not reviewed for accuracy.

It is important for the Agency to identify and investigate all reconciling items reflected on its bank reconciliations in order to determine the nature of each reconciling item and the reason it remains outstanding. By reviewing these reconciling items and following up on their status, there is greater likelihood that the ending book balance reflected on the bank reconciliations depicts a more accurate figure of the Agency's cash balance at month-end.

We recommend that the Agency implement policies and procedures to ensure that bank reconciliations are prepared monthly shortly after month-end, that reconciling items are adequately explained and adjustments, if necessary, are recorded in the proper accounting records, that reconciliations are prepared and reviewed by separate authorized personnel, and that the preparation and review processes are evidenced on the face of the reconciliations in the form of signatures and dates.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on 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, 2012, and dated June 28, 2013. In response to our inquiries, we were told that the Agency has developed and implemented procedures to correct the weaknesses reported in the prior fiscal year. However, because the procedures were implemented after June 30, 2013, we did not perform tests of the new procedures.

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

May 16, 2014

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, 2013. Our comments to the finding in the Management's Response section of the report are as follows:

Composite Reservoir Account Reconciliation (Bad Check Returns Account)

We concur with your findings. We understand and recognize the importance of timely composite reservoir account reconciliations. During FY 2013, the responsibilities for reconciliation of these accounts were reassigned during the turnover of several key personnel. In addition, changes within the DOR for security, deposit processing, and changes with banking communication methods have all impacted the monthly reconciliation process. We have updated our procedures to ensure that reconciliations are done timely each month, that outstanding items are adequately explained and cleared as soon as possible and that all reconciliations are reviewed by the supervisor for completeness and accuracy.

Please contact me if you have questions or comments.

Sincerely,

Handwritten signature of Laura W. Watts in cursive script.

Laura W. Watts, CFO

Handwritten signature of Meredith Cleland in cursive script.

Meredith Cleland, Deputy Director
Administrative Services