

**SOUTH CAROLINA  
REVENUE AND FISCAL AFFAIRS OFFICE**

**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

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 19, 2016

The Honorable Nikki R. Haley, Governor  
and  
Members of the Board  
South Carolina Revenue and Fiscal Affairs Office  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Revenue and Fiscal Affairs Office (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2015, in the areas addressed. The Office'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 eleven 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 earmarked 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 (\$33,800 – earmarked fund and \$3,200 – federal fund) and  $\pm 10$  percent.

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

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 Office, 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 fourteen 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 federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$38,800 – general fund, \$32,600 – earmarked fund, and \$3,200 – 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 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, earmarked 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 (\$38,800 – general fund, \$32,600 – earmarked fund, and \$3,200 – 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  $\pm 10$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries and Appropriation Transfers**

- We inspected ten selected recorded journal entries and one appropriation transfer 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 journal entry 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 Office'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 Office 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 finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2015, prepared by the Office 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.

8. **Accounting Policies and Procedures**

- We obtained a copy of the written accounting policies and procedures of the Office. We reviewed and inspected the policies and procedures and tested them against agency processes that occurred after the policies and procedures were in place.

Our finding as a result of these procedures is presented in Cash Receipt Procedures in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor  
and  
Members of the Board  
South Carolina Revenue and Fiscal Affairs Office  
October 19, 2016

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 Office 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 governing body and management of the South Carolina Revenue and Fiscal Affairs Office 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 - 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**

### **Condition:**

The following conditions were identified in our testing of the Office's fiscal year ended June 30, 2015 reporting packages:

1. Three of ten reporting packages were submitted to the Comptroller General's Office after the due date. The late submissions ranged from one to four business days late.
2. One operating lease was not properly identified on the Operating Leases Reporting Package, understating the future minimum payments of the Office.
3. Grants receivable of approximately \$20,000 were reported as a receivable on the Grants and Contribution Revenues Reporting Package and again on the Receivables and Deferred Revenue Reporting Package.

### **Cause:**

Interpretation of Comptroller General's Office instructions and miscommunication during the transition from the Budget and Control Board contributed to the exceptions noted above.

### **Effect:**

Statewide financial reporting timeliness and the disclosures and balances described in the condition were impacted by the exceptions.

### **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 Office implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Policies and Procedures manual and reporting package form instructions.

### **Management's Response:**

We agree with the findings. We have implemented a process of setting internal deadlines for workflow, allotting sufficient time for staff preparing the packages and management to review all details. In addition, we have reviewed our processes and noted the proper reporting of these two items for FY 2016-17.

## **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.

## **CASH RECEIPT PROCEDURES**

### **Condition:**

Our testing of receipts revealed that the receipt date could not be verified for seventeen of thirty-six receipt transactions tested.

### **Cause:**

Procedures are not in place to ensure that the receipt date is documented for all payments received by the Office.

### **Effect:**

Being able to demonstrate that receipts are deposited timely and are recorded in the proper fiscal year are potential issues associated with an undocumented receipt date.

### **Criteria:**

Effective internal controls over receipts include a record of the receipt date.

### **Recommendation:**

We recommend the Office strengthen its internal controls over receipts through Office policies and procedures which ensure the documentation of a receipt date for all Office receipts.

### **Management's Response:**

We agree with the findings. The Agency has made the necessary internal controls to include the documentation of a receipts date for all office receipts.

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