

**SOUTH CAROLINA
DEPARTMENT OF INSURANCE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 20, 2015

The Honorable Nikki R. Haley, Governor
and
Mr. Raymond G. Farmer, Director
South Carolina Department of Insurance
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Insurance (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2014, 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 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 twenty-five 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, 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 (\$867,400 – general fund, \$50,500 – earmarked fund, and \$20,600 – restricted fund) and \pm 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.
- We performed procedures to ensure that revenue allocations were correctly distributed from the revenue clearing account to the various revenue accounts.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Bail Bondsman Revenue in the Accountant's Comment 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 Department, 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 twenty-five 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, 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 (\$31,200 – general fund, \$64,400 – earmarked fund, and \$20,600 – restricted fund) and \pm 10 percent.

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

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, 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 (\$31,200 – general fund, \$64,400 – earmarked fund, and \$20,600 – restricted 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 ± 10 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 and Appropriation Transfers**

- We inspected twenty-five selected recorded journal entries and one interagency 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 Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, prepared by the Department 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 closing packages agreed with the supporting workpapers and accounting records

Our findings as a result of these procedures are presented in Petty Cash Approval, Attorney Fees and Reporting Packages in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Mr. Raymond G. Farmer, Director
South Carolina Department of Insurance
April 20, 2015

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

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

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS 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 conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

TIMELY PAYMENT OF INVOICES

During our Test of Disbursements, we noted that one invoice out of 25 tested was not submitted to the Comptroller General's Office for payment within 30 days of receipt of goods and/or services. We also noted this same exception for one invoice out of 25 tested in our Cut-Off Test of Expenditures. This invoice was also not paid in the correct fiscal year. The original invoices, both for airplane tickets, were held by divisions within the Department and were not forwarded to the finance division in a timely manner, causing a delay in payment.

Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment of goods and services within 30 workdays of the receipt of goods and/or services.

We recommend the Department implement procedures requiring that invoices be forwarded directly to finance upon receipt. We also recommend the Department instruct its divisions to notify finance of the acceptance of goods and services to ensure timely payment.

PETTY CASH APPROVAL

During our review of the Department's Cash and Investments Reporting Package, we noted the \$100 change fund/petty cash account maintained by the Department was not approved by the State Auditor's Office.

Section 20 of the Comptroller General's Disbursement Regulations requires State Auditor approval for the establishment of all petty cash funds.

We recommend the Department request approval from the State Auditor's Office for its \$100 petty cash account.

ATTORNEY FEES

During our review of the Department's Litigation Reporting Package, we noted attorney fees paid to one law firm exceeded the rate authorized by the Attorney General's Office (AGO). According to the "South Carolina Attorney General Request for Authorization to Employ Associate Council" form dated November 13, 2013, the Department was authorized to pay one firm \$180 an hour for their services; however, the Department paid the firm \$187.50 an hour. According to Department personnel, they had originally requested a rate of \$187.50 an hour but only \$180 an hour was approved by the AGO. This change was not communicated to the attorney and was missed during the Department's review of the invoice for legal fees.

Additionally, the Department could not provide an itemized invoice for legal fees paid to another law firm. As a result, we were unable to verify the Department paid the rate approved by the Attorney General's Office and that the expenditure was for allowable and authorized legal fees.

Section 1-7-170 of the South Carolina Code of Laws, as amended, states, "A department or agency of state government may not engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon a fee as must be approved by him."

We recommend the Department strengthen its procedures to ensure compliance with State law regarding legal fees.

REPORTING PACKAGES

Operating Leases

During our testing of the Operating Leases Reporting Package, we noted the following:

- 1) The Department reported only current building leases for both the Columbia and Charleston office space. The previous building leases for these office spaces were omitted from the reporting package even though they were still in effect during fiscal year 2014. Because of this omission, the Department underreported fiscal year 2015 future minimum lease payments by \$4,928.
- 2) The Department reported two separate copier leases together as one lease. Additionally, the effective dates reported for these two leases did not agree to either lease agreement.

Department personnel stated the errors noted above ultimately occurred due to Department oversight.

Subsequent Events Questionnaire

During our review of the Subsequent Events Questionnaire, we noted that the Department did not submit the questionnaire in a timely manner. Department personnel stated this was due to oversight.

Recommendation

We recommend the Department implement procedures to ensure reporting packages are completed when applicable and in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

SECTION B - OTHER WEAKNESS

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

BAIL BONDSMAN REVENUE

The Department receives revenue for bail bondsman and runner licenses. This revenue is first recorded into a decentralized receipts systems and then posted to the SCEIS accounting system in batches. During our review of this revenue account we noted that the total revenue recorded in the decentralized system did not agree to total revenue recorded in SCEIS for fiscal year 2014 by \$9,360. Therefore, we were unable to determine whether revenue had been recorded accurately in the Department's book of record.

According to Department personnel, employees have attempted to reconcile the two systems but were unable to determine why the difference occurred.

Sound internal controls require revenue be properly recorded in the Department's books and reconciliations be performed on a monthly basis.

We recommend the Department strengthen its policies and procedures to ensure its receipts system is regularly reconciled to its accounting system and if necessary, document and correct any differences noted during the reconciliation process.

MANAGEMENT'S RESPONSE



South Carolina Department of Insurance

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NIKKI R. HALEY
Governor

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May 18, 2015

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

Dear Mr. Gilbert:

The South Carolina Department of Insurance has reviewed the draft copy of the FY 2014 Agreed-Upon Procedures engagement and wishes to offer the following response:

Timely Payment of Invoices

The vendor in question sends electronic invoices via emails to staff when airline tickets are purchased. DOI has contacted the vendor in writing requesting that monthly statements be provided to Accounting, as well as Accounting copied on all emails sent to departmental staff or face the possibility of eliminating this service. Staff are routinely reminded that all invoices are to be submitted to Accounting immediately upon receipt.

Petty Cash Approval

This Petty Cash Fund has been with the Department as far back as the early 2000's. We did not have a copy on file of the approval from the State Auditor's Office, nor did the State Auditor's Office have one in their permanent file. However, the Department requested approval, which was received on March 31, 2015 and forwarded to the State Auditor's Office to place in our permanent file.

Attorney Fees

This was an oversight due to the amended approval from the Attorney General's Office. We now write to each firm upon receipt of the approval from the Attorney General's Office requesting confirmation of the following: legal services to be performed; dates of service; hourly rate(s) maximums; maximum amount; and invoice submission schedule.

Reporting Packages

The underreported amount was due to an omission of a formula in the Excel worksheet. Copier leases will be reported separately in future years to ensure more accurate future liabilities. They

had previously been combined in prior year reporting packages submitted to the Comptroller General's Office.

Subsequent Events Questionnaire

This was inadvertently not completed timely. We were notified by the Comptroller General's Office about this missed deadline on November 10, 2014 and supplied the required report on November 13, 2014. This was the only one of fourteen closing packages that was not filed prior to the deadline. We will monitor the schedule and all deadlines in the future closer to avoid any late submissions.

Bail Bondsman Revenue

The deadline for Bail Bondsman renewal falls on June 30th, the end of each fiscal year. Therefore, some payments are received shortly after the fiscal year in order to avoid cancelling licenses. These are posted to the new fiscal year in both the internal accounting system and SCEIS. Because we have activity (receipts) posted in multiple fiscal years, it is difficult to reconcile the actual receipts posted in the internal accounting system to the "distribution" script provided from IT. Historically, there has always been a small variance between the total amount collected by the internal accounting system and the actual distribution amount. We will strengthen our internal controls to minimize/eliminate this small discrepancy in the future.

The Department of Insurance authorizes release of the final report to include our responses noted above. Please feel free to contact me anytime at (803) 737-6343.

Sincerely,



Benjamin Duncan
Deputy Director for Administration

BD/jtw

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