

South Carolina Department of Administration

Columbia, South Carolina

Independent Accountant's Report on

Applying Agreed-Upon Procedures

*For the year ended June 30, 2016*



George L. Kennedy, III, CPA  
State Auditor

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August 2, 2017

Marcia S. Adams, Executive Director  
South Carolina Department of Administration  
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Administration for the fiscal year ended June 30, 2016, was issued by Scott and Company, 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,

George L. Kennedy, III, CPA  
State Auditor

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

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Mr. George L. Kennedy, III, CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the governing body and management of the South Carolina Department of Administration (the "Department") and the South Carolina Office of the State Auditor (the "State Auditor") (together, the "Specified Parties"), on the Department's financial records, internal controls and compliance with State laws and regulations for the fiscal year ended June 30, 2016, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. 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 enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

### **1. Cash Receipts and Revenues**

- We inspected 25 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected 25 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 a comparison of current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year, where prior year information was available. The information was not available for some subfunds and accounts due to the restructuring of the South Carolina Budget and Control Board. For the accounts that we could compare, we inquired about changes in the general, earmarked, restricted and federal funds to ensure that revenues were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$260,000 – general fund, \$600,000 – earmarked fund, \$290,000 – federal and \$82,000 – restricted fund) and +/- 10 percent.

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

## **2. Non-Payroll Disbursements and Expenditures**

- We inspected 25 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 25 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We obtained a comparison of current year expenditures at the subfund and account level to those of the prior year where prior year information was available. The information was not available for some subfunds and accounts due to the restructuring of the South Carolina Budget and Control Board. For the accounts we could, we inquired about changes in the general, earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels (\$260,000 – general fund, \$600,000 – earmarked fund, \$290,000 – federal and \$82,000 – restricted fund) and +/- 10 percent.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented as Finding 1 - Cut-off of Non-Payroll Disbursements, in the Accountant's Comments section of this report.

## **3. Payroll Disbursements and Expenditures**

- We inspected 25 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 Department's policies and procedures and State regulations.
- We inspected payroll transactions for 16 new employees and 13 individuals who terminated employment to determine if the employees were added or removed from the payroll in accordance with the Department's policies and procedures, that the employee's first 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 earmarked fund level to those of the prior year. We inquired about changes in the earmarked fund to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality level (\$600,000 – earmarked fund) and +/- 10 percent. Because of the restructuring of the South Carolina Budget and Control Board, the amounts in the general, federal and restricted funds were not comparable to the prior year.

- 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 Department's accounting records.

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

#### **4. Journal Entries, Operating Transfers, and Appropriation Transfers**

- We inspected 25 journal entries, 25 operating transfers, and 25 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 Department's policies and procedures and State regulations.

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

#### **5. Composite Reservoir Accounts**

##### *Reconciliations*

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2016 and inspected 2 monthly reconciliations of balances in the Department'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 Department'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 Department's accounting records. The Department has two composite reservoir accounts. The accounts only have electronic transactions.

The reconciliations were chosen haphazardly. We found no exceptions as a result of the procedures.

#### **6. Appropriation Act**

- We inspected Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and Department specific provisos, if applicable.

We found no exceptions as a result of the procedures.

**7. Reporting Packages**

- We obtained copies of all reporting packages as of and for the fiscal year ended June 30, 2016 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 reporting packages agreed with the supporting workpapers and accounting records.

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

**8. Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the South Carolina Budget and Control Board's (now known as the Department of Administration) Independent Accountant's Report on Applying Agreed-Upon Procedures resulting from our engagement for the fiscal year ended June 30, 2015, to determine if the Department had taken corrective action.

We found no exceptions as a result of the procedures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Department's financial records, internal controls and compliance with State laws and regulations. Accordingly, we do not express such an opinion or conclusion. 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 Department, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Scott and Company LLC*

Columbia, South Carolina  
August 2, 2017

**ACCOUNTANT'S COMMENTS**

## **OTHER WEAKNESSES**

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 Department 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 while performing the agreed-upon procedures but is not considered a violation of State laws, rules or regulations.

## **Finding 1 - Cut-off of Non-Payroll Disbursements**

### **Condition:**

We inspected 25 recorded non-payroll disbursements to determine if they were recorded as an expense in the correct fiscal year. Of the 25 transactions, an expense related to the K12/E-rate program in the amount of \$1,618,514, was improperly recorded. The services were rendered in May 2015 and billed to the Department in June 2015. The disbursement was incorrectly recorded as an expense in fiscal year 2016 instead of fiscal year 2015, which is when the expense was incurred.

### **Cause:**

Due to employee oversight, the Department incorrectly recorded a fiscal year 2015 expense in fiscal year 2016.

### **Effect:**

There was an understatement of expenses for fiscal year 2015 and overstatement of expenses for fiscal year 2016.

### **Criteria:**

An effective internal control system includes procedures designed to properly record expenses in the correct fiscal year.

### **Recommendation:**

We recommend the Department implement additional review procedures to ensure that expenses are recorded in the correct fiscal year. This will assist in accurate financial reporting.

July 25, 2017

We appreciate your work on our 2016, Agreed Upon Procedures Audit. In regards to your finding:

**Finding 1 - Cut-off of Non-Payroll Disbursements**

**Condition:**

We inspected 25 recorded non-payroll disbursements to determine if they were recorded as an expense in the correct fiscal year. Of the 25 transactions, an expense related to the K12/E-rate program in the amount of \$1,618,514, was improperly recorded. The services were rendered in May 2015 and billed to the Department in June 2015. The disbursement was incorrectly recorded as an expense in fiscal year 2016 instead of fiscal year 2015, which is when the expense was incurred.

**Cause:**

Due to employee oversight, the Department incorrectly recorded a fiscal year 2015 expense in fiscal year 2016.

**Effect:**

There was an understatement of expenses for fiscal year 2015 and overstatement of expenses for fiscal year 2016.

**Criteria:**

An effective internal control system includes procedures designed to properly record expenses in the correct fiscal year.

**Recommendation:**

We recommend the Department implement additional review procedures to ensure that expenses are recorded in the correct fiscal year. This will assist in accurate financial reporting.

We concur with the finding. Department of Administration will re-enforce our training of accounts payable staff to ensure proper cutoff and transactions posting in the correct reporting period.

