

**SOUTH CAROLINA
OFFICE OF THE ADJUTANT GENERAL
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 5, 2015

Major General Robert E. Livingston, Jr.
Adjutant General
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the Adjutant General (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2014, 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 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 general, 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 (\$15,600 – general fund, \$37,300 – earmarked fund, \$12,700 – restricted fund, and \$291,700 – federal fund) and \pm 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Receipt Transactions 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 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 (\$53,000 – general fund, \$56,800 – earmarked fund, \$12,700 – restricted fund, and \$267,700 – federal fund) and ± 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 nineteen selected new employees and fourteen 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 (\$53,000 – general fund, \$56,800 – earmarked fund, \$12,700 – restricted fund, and \$267,700 – federal 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 ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual payroll disbursements selected were chosen randomly. We found no exceptions as a result of the procedures.

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

- We inspected twenty-five recorded journal entries, four operating transfers, 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 tested all transfers. We found no exceptions as a result of the procedures.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained monthly reconciliations prepared by the Office for the year ended June 30, 2014, and inspected six selected reconciliations of balances in the Office's accounting records to those reflected on the bank statements and 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 Office'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 Office's accounting records.

Cash Disbursements and Expenditures

- We inspected eighteen 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.

Our finding as a result of these procedures is presented in Composite Reservoir Account Reconciliation in the Accountant's Comments section of this report.

6. **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.

Our findings as a result of these procedures are presented in Authorized Attorney Fees and Bond Approval in the Accountant's Comments section of this report.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2014, 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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 (payroll and nonpayroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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



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.

REPORTING PACKAGES

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." We tested the Office's 2013-2014 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following errors, resulting from oversight, misinterpretation of instructions, or as otherwise described, were noted during our testing of reporting packages:

Grants and Contribution Revenues Reporting Package

During the audit of the statewide Comprehensive Annual Financial Report, the Office was cited for several errors associated with this reporting package including a failure to substantiate the collectability of some grant receivable balances and the omission of certain general ledger items in the reported grant receivable and deferred revenue balances. The errors were substantially the result of inadvertent exclusion of the accounts payable balances from the accounts payable reporting package, which was corrected by the Office after being discovered during the audit.

Miscellaneous Revenues Reporting Package

The Office could not provide documentation to support the \$927,045 Current Net Receivable balance reported for fund 31640000.

Operating Leases Reporting Package

Our testing revealed several discrepancies associated with reported contingent rental payments and current expense. These discrepancies were the result of Office staff miscoding certain contingent rent payments and not including an annual rent increase in the current expense of operating leases. In addition, the Office excluded future minimum lease payments totaling in excess of \$1 million dollars because the leases included cancellation clauses. The Comptroller General's Office Reporting Policies and Procedures Manual provides guidelines for evaluating leases with cancellation clauses.

Accounts Payable Reporting Package

The Office could not provide adequate support documentation to substantiate the fund classifications for several payables on the Accounts Payable Summary Form (Form 3.12.2) or approximately \$2,200 of the total payable balance reported on the AP reconciliation form (Form 3.12.1). In addition, the Office indicated on the Subsequent Event Questionnaire that additional liabilities had been identified but the Office was unable to provide documentation to support the claim.

Other Payroll Liabilities Reporting Package

We selected nine employees for detail testing on the Office's compensated absences report and noted two discrepancies. One error occurred because the employee submitted a leave request after the reporting package date. The Office could not explain the cause of pay rate error. The misstatement caused by these errors was less than \$100. The Office could not explain why the pay rate discrepancy occurred.

We recommend the Office implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

AUTHORIZED ATTORNEY FEES

The Office engaged an attorney on a fee basis with written approval of the Attorney General, but the fees paid to the attorney exceeded the authorized maximum fees approved by the Attorney General. The Attorney General's Office authorized payments totaling \$6,000, however, the Office made payments of approximately \$11,000. Additionally, the Office made payments of \$2,500 to a second attorney, but the Office could not provide any approval from the Attorney General's Office authorizing the Office to contract the services of the attorney.

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

Office oversight led to the discrepancies noted above.

We recommend the Office develop and implement procedures to ensure compliance with all requirements of Section 1-7-170 of the South Carolina Code of Laws.

BOND APPROVAL

During our testing of the Appropriation Act program, we made inquiries of the Office pertaining to blanket bond approval. The Office has two blanket bonds, a fidelity bond and a bond for the Adjutant General, that are subject to the requirements of this section. The Office could not provide documentation to demonstrate that they had received approval from either the Attorney General or the State Auditor.

The South Carolina Code of Laws, Title 1, Chapter 11, Section 180 states, “Additional powers of the Budget and Control Board. (4) approve blanket bonds for a state department, agency, or institution including bonds for state officials or personnel. However the form and execution of blanket bonds must be approved by the Attorney General. (The Budget and Control Board has delegated its responsibility to the State Auditor.)”

Office staff stated that the omission was due to oversight.

We recommend the Office implement policies and procedures to ensure compliance with the South Carolina Code of Laws and we recommend that they obtain all necessary approvals for their blanket bonds.

RECEIPT TRANSACTIONS

From our test of twenty-five randomly selected cash receipts, we determined that Office staff had not deposited one receipt timely and could not document date of receipt for another receipt. The Office deposited a receipt (\$100) received in December 2013 on January 24, 2014. Timing conflicts contributed to the delay. The receipt documentation issue related to a deposit made within a few days of the beginning of the fiscal year for a batch of receipts received on or prior to the deposit date. We could not determine when the receipts were received because the batched documents did not list the date of receipt.

Section 117.1 of the 2014 Appropriation Act requires the remittance of state revenues to the State Treasurer at least once each week, when practical. To ensure compliance with this proviso, agencies must implement procedures to document the date of receipt and deposit. In addition, Generally Accepted Accounting Principles require that accounting transactions be recorded in the period earned. To ensure receipts are recorded in the proper year the Office should document the date of receipt.

We recommend the Office review and implement procedures as necessary to ensure adequate documentation and compliance for the processing of receipt transactions.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules, or Regulations.

COMPOSITE RESERVIOR ACCOUNT RECONCILIATION

The Comptroller General's Office Reporting Policies and Procedures Manual provides guidance to state agencies with respect to reconciling composite reservoir accounts. The Manual explains that an agency's internal controls should include bank reconciliations for these accounts. Adequate internal controls include independently approved monthly bank reconciliations that adequately explain reconciling differences in order to timely detect and correct errors.

The Office could not document that it performed monthly reconciliations of its Youth Challenge Program composite reservoir account during fiscal year 2014. However, the Office provided documentation that demonstrated it was in the process of implementing a monthly reconciliation process.

We recommend the Office continue its implementation of the monthly bank reconciliation process.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The State Auditor's Office letter of instruction for the schedule of federal financial assistance (SFFA) serves as guidance for agencies to complete the SFFA including proper classification of revenues, expenditures, other additions and deductions and requires accurate identification of grants by catalog of federal domestic assistance (CFDA), grant number, program and grant title, for proper reporting on the statewide single audit report.

Our testing of the Office's SFFA disclosed inaccurate reporting of several grant titles, CFDA titles and a grant number. Additionally, inaccuracies in the presentation and classification of some revenues, expenditures and other additions and deductions were noted.

The exceptions occurred because the Office does not have sufficient controls in place to detect errors during its review of the SFFA.

We recommend the Office implement procedures to ensure the accuracy of the Schedule of Federal Financial Assistance in accordance with the State Auditor's letter of instructions.

MANAGEMENT'S RESPONSE

Management's Response

Reporting Packages – Management will ensure that backup documentation will be attached to the Reporting Package rather than running reports pulling off the numbers and being unable to run the report for verification.

Authorized Attorney Fees – Management will track expenditures to the designated attorney during the year to verify that the amount does not go over the amount authorized. If additional funds are needed, a revised request to the Attorney General will be requested. If an attorney is needed that is not on our authorization, an authorization request will be submitted.

Bond Approval – Approval for the fidelity bond and the bond for the Adjutant General will be submitted to the Attorney General's office for approval

Receipt Transactions – Continued training to the 58 Armory Managers to deposit rental check within a week is ongoing. Additional instruction is given to new Armory Managers when they are appointed during the year by our Internal Auditor. We will continue to emphasize this issue with the Managers.

Composite Reservoir Account Reconciliation – The Agency has implemented a monthly reconciliation of the Youth Challenge Academy account and will continue.

Schedule of Federal Financial Assistance – Reconciliations are continuing on the SFFA to identify errors from previous years and grants. Reconciliations are expected to be complete with the 2015 SFFA and all correcting Journal Entries on the 2016 SFFA. All Closed Grants are expected to be closed in SCEIS in 2016 to remove them from the Business Warehouse SFFA report.

Point of Contact for All Findings

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