

**SOUTH CAROLINA  
OFFICE OF THE ADJUTANT GENERAL  
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

August 15, 2016

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, 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 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 (\$7,100 – general fund, \$47,600 – earmarked fund, \$12,700 – restricted fund, and \$1,079,100 – 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 (\$56,900 – general fund, \$57,500 – earmarked fund, \$13,000 – restricted fund, and \$1,105,100 – 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 fourteen selected new employees and twenty-two 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 (\$56,900 – general fund, \$57,500 – earmarked fund, \$13,000 – restricted fund, and \$1,105,100 – 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. Our finding as a result of these procedures is presented in Hourly Rate Calculation in the Accountant's Comments section of this report.

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

- We inspected twenty-five selected 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 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, 2015, and inspected six selected reconciliations of balances in the Office'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 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 Receipts and Revenues*

- We inspected two 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 the same 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 thirty 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 the same selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

Our findings as a result of these procedures are presented in Receipt Transactions and 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 finding as a result of these procedures is presented in 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, 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.

8. **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.

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.

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 on the Office resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the Office had taken corrective action.

Our findings as a result of these procedures are presented in Receipt Transactions, Bond Approval, Reporting Packages, Composite Reservoir Account Reconciliation, and Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

Major General Robert E. Livingston, Jr.  
Adjutant General  
State of South Carolina  
August 15, 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 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.



George L. Kennedy, III, CPA  
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.

## **HOURLY RATE CALCULATION**

### **Condition:**

One of twenty-two termination payments tested resulted in an overpayment due to overtime pay calculations which were inconsistent with Office and State policy.

### **Cause:**

For the employee tested, the hourly rate in the accounting system used for straight time and overtime calculations was not accurate. Our procedures revealed this to be a systemic issue for firefighters on the Office payroll.

### **Effect:**

The overpayment was \$172 for the payment identified above.

### **Criteria:**

The hourly rate calculation discrepancy is inconsistent with Office policy. Office policy for firefighter pay is in accordance with Title 8, Chapter 11, Section 55 of the South Carolina Code of Laws and with the Fair Labor Standards Act.

### **Recommendation:**

We recommend the Office ensure that pay rate discrepancies in the accounting system are corrected to prevent future overpayments.

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

As this has been identified as a systemic problem with SCEIS and the firefighters time calculation, there is nothing we can do to fix the problem. We will continue to monitor payments that cause an error, and on a case by case basis make a determination on whether to recoup the error.

## **RECEIPT TRANSACTIONS**

### **Condition:**

The prior year State Auditor's Report included a comment for an untimely deposit and for not adequately documenting a receipt date. In our current year testing, three of the fifty Office operating receipts tested were deposited untimely, several weeks to several months after the receipt. Additionally, the receipt date for the two composite reservoir account receipts tested was not adequately documented to verify timely deposit. The Office did provide documentation to show implementation of a procedure subsequent to our testing period which does document composite reservoir receipt dates.

### **Cause:**

Various factors contributed to Office controls not effectively ensuring timely deposits for all receipt transactions.

### **Effect:**

The deposit of some receipts were delayed for weeks or months which is not consistent with Office or State policy.

### **Criteria:**

Section 117.1 of the 2015 Appropriation Act requires the remittance of state revenues to the State Treasurer at least once each week, when practical.

### **Recommendation:**

We recommend the Office continue to implement policies and procedures which will ensure timely deposits of all Office receipts.

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

We Concur with the finding. The Agency has in place policies and procedures to train all individuals who make deposits into the SCEIS system. This includes the rental deposits from the 63 armories located around the state. The Armory Managers go to Annual Training on their responsibilities and are trained when an Armory Manager is replaced. When they make a deposit error, they are notified, but as Federal Employees doing an extra job for the State, I anticipate that errors will continue to occur as they have over my last 10 years as CFO.

## **BOND APPROVAL**

### **Condition:**

The prior year State Auditor's Report included a comment recommending the Office obtain required approvals for its blanket bonds. Corrective action was not completed as of the completion of our current year testing.

### **Cause:**

Corrective action on the prior year finding was not yet completed.

### **Effect:**

The blanket bonds of the Office were not approved as described in the South Carolina Code of Laws.

### **Criteria:**

Title 1, Chapter 11, Section 180 of the South Carolina Code of Laws describes the approval of blanket bonds for state agencies and state officials.

### **Recommendation:**

We again recommend the Office implement policies and procedures to ensure compliance with the South Carolina Code of Laws and continue with their corrective action of obtaining the necessary approvals for their blanket bonds.

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

A policy has been put into place into an online schedule to ensure that a notification to confirm with the Attorney General is notified to confirm the annual Surety Bond for the Adjutant General.

## **REPORTING PACKAGES**

### **Condition:**

Corrective was action taken by the Office to address several reporting package exceptions reported in our prior year report. Repeated conditions were noted in the Other Payroll Liabilities and Operating Leases reporting packages, and an additional exception was noted in the Capital Assets Reporting Package, each described as follows:

1. Other Payroll Liabilities Reporting Package: The liability for compensated absences was overstated due to the late submission of leave for one of twenty-five employees tested.
2. Operating Leases Reporting Package:
  - Reported contingent rents were misstated due to contingent rents miscoded in the accounting system.
  - The future minimum lease payments for several operating leases were not reported on the Future Minimum Payment Schedule.
3. Capital Assets Reporting Package: The Office inaccurately indicated that it did not have any uncompleted construction contracts at June 30, 2015.

### **Cause:**

Factors leading to the above exceptions included the late processing of a leave request and misinterpretation of Comptroller General's Office reporting package instructions.

### **Effect:**

1. Payroll liabilities at year end were overstated by approximately \$1,100 as a result of the exception noted.
2. The total of miscoded contingent rents was not determined as part of our procedures. Leases with future minimum payments of approximately \$1 million dollars should be evaluated for reporting.
3. The amount of construction commitments was not identified and reported, due to the indication that the Office had no uncompleted construction contracts.

### **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 develop and 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.

**Management's Response:**

Concur:

The Human Resources Department will follow policy to ensure that all leave statements are received and posted on time.

The policy regarding "cancelable leases" has been changed back to correctly reflect the future lease payments.

The Policy in effect will be followed and reviewed to include ongoing projects.

## **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 RESERVOIR ACCOUNT RECONCILIATION**

### **Condition:**

Although the Office has implemented reconciliation procedures for its Youth Challenge Program composite reservoir account in fiscal year 2016, the procedures were not in place during fiscal year 2015 and therefore adjustments to the account were not adequately documented.

### **Cause:**

For this account that was opened in fiscal year 2014, the Office did not have bank reconciliation procedures in place to adequately document all applicable bank account activity through fiscal year 2015.

### **Effect:**

Adequately documented bank reconciliation controls over the Youth Challenge Program composite reservoir account were not in place through fiscal year 2015.

### **Criteria:**

The Comptroller General's Office Reporting Policies and Procedures Manual provides guidance to state agencies with respect to the key internal control of composite reservoir bank account reconciliations.

### **Recommendation:**

We recommend the Office ensure that its recently implemented reconciliation procedures adequately document reconciling differences and are designed to timely detect and correct errors.

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

The Policy of reconciliation has been put in place. The Grants Coordinator has been given authorization to the bank statements and are using these to confirm the manual reconciliations from the program.

## **SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

### **Condition:**

Exceptions, similar to those encountered in the prior year, were noted during our test of the Office's schedule of federal financial assistance. The exceptions included discrepancies with grant titles and numbers as well as discrepancies with the presentation of expenditures.

### **Cause:**

The schedule completed by the Office, was not adequately reviewed to correct the discrepancies noted prior to submitting to the State Auditor's Office.

### **Effect:**

Inaccuracies on the schedule increase the risk of financial reporting errors in the statewide single audit report.

### **Criteria:**

The State Auditor's Office letter of instructions for the schedule of federal financial assistance provides guidance to agencies to help prevent reporting errors.

### **Recommendation:**

We recommend the Office continue to develop and implement procedures to ensure the accuracy of the schedule of federal financial assistance.

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

Procedures are continuing to be implemented and personnel are continued to be instructed to the Grant nomenclature and resolving the ending balance issues that have been problems.

## **SECTION C - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office for the fiscal year ended June 30, 2014, and dated August 5, 2015. We determined that the Office has taken adequate corrective action on each of the findings, except we have repeated Receipt Transactions, Bond Approval, Reporting Packages, Composite Reservoir Account Reconciliation, and Schedule of Federal Financial Assistance.

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