

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

STATE AUDITOR'S REPORT

JUNE 30, 2016



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 7, 2017

Mr. Raymond G. Farmer, Director
South Carolina Department of Insurance
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Insurance (the Department), solely to assist you in evaluating the systems, processes and behaviors of the Department for the fiscal year ended June 30, 2016. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

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 an opinion or conclusion, respectively, on the systems, processes and behaviors of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 Department 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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

Mr. Raymond G. Farmer, Director
South Carolina Department of Insurance
Columbia, South Carolina
June 7, 2017

This report is intended solely for the information and use 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. However, this report is a matter of public record and its distribution is not limited.



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State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures Related to the South Carolina Department of Insurance (R20)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$1,000,000 and 10% in general funds and \$75,000 and 10% for all other funds.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.
4. Select the Department's year-end reconciliation of the credit card system to SCEIS and determine if it was performed timely and properly documented and if reconciling differences were adequately explained and properly resolved.

We found no exceptions as a result of these procedures.

Cash Disbursements/Non-Payroll Expenditures

5. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$50,000 and 10% as well as any variations noted in federal funds.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by agency procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with all State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / verify proper sales/use tax.

Haphazardly select one federally funded cash disbursement/non-payroll expenditure and inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment (as other transactions above) and applied uniformly to both federally assisted and other activities of the recipient.
7. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

Cash Disbursements/Non-Payroll Expenditures (Continued)

8. Follow up on the status of the Discussion with Management and Note to Next Year's Auditor from the fiscal year 2015 engagement.

We found no exceptions as a result of these procedures.

Payroll

9. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$50,000 and 10%.
10. Randomly select twelve payroll disbursements and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and scan the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation noting all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and scan the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

11. Randomly select five bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
12. Randomly select eight bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations to determine:
 - Employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015.
 - Employee does not make more than \$100,000 annually.
 - Bonus pay was split between funds according to the ratio of the employee's base salary.
13. Randomly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
14. Randomly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
15. Compare the percentage change in personal service expenditures to the percentage change in employer contributions. Obtain an explanation of changes of +/- 10%.

Payroll (Continued)

16. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

We found no exceptions as a result of these procedures.

Journal Entries

17. Randomly select twelve non-recurring journal entries for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

Appropriation Act

18. Complete the Appropriation Act work program provided to management noting areas of noncompliance, if any.
19. Obtain Department-specific state provisos and inspect for compliance through inquiry and observation.

We found no exceptions as a result of these procedures.

Reporting Packages

20. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
21. In addition to the above procedure, we will perform the following:
 - Tax Revenue Reporting Package
 - Determine if amounts agree to Department prepared reports/spreadsheets.
 - Prepaid Expenses Reporting Package
 - Determine if amounts agree to the SCEIS Year-end Rptg – Prepaid Expenses report. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly calculated, classified and reported based on inspection of the SCEIS general ledger and invoices.
 - Capital Assets Reporting Package
 - Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger and the SCEIS Asset History Sheet report.

Reporting Packages (Continued)

- Operating Leases Reporting Package
 - Determine if amounts agree to the SCEIS general ledger and the SCEIS Operating Leases Expense w/ Vendor report. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified and coded and determine the accuracy of future minimum lease payments by performing a recalculation of each reported amount.
- Other Payroll Liabilities Reporting Package
 - Determine if amounts agree to Department prepared reports/spreadsheets and the SCEIS Compensated Absences report.
- Subsequent Events Questionnaire
 - Determine if responses and any related supplemental information are reasonable/accurate based on inspection of the SCEIS general ledger and Department prepared reports/spreadsheets.

22. Follow up on the status of the Discussions with Management from the fiscal year 2015 engagement.

We found no exceptions as a result of these procedures.

Status of Prior Findings

23. Inquire about the status of findings reported in the Accountant's Comments section of the engagement for the prior fiscal year to determine if the Department has taken appropriate corrective action.

We found no exceptions as a result of these procedures.