

**SOUTH CAROLINA  
DEPARTMENT OF REVENUE  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2015**

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS	6
PETTY CASH APPROVAL	7
SECTION B – OTHER WEAKNESS	8
COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS	9
SECTION C – STATUS OF PRIOR FINDINGS	10



South Carolina  
Office of the State Auditor

George L. Kennedy, III, CPA  
State Auditor

---

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 18, 2016

The Honorable Nikki R. Haley, Governor  
and  
Mr. Rick Reames, III, Director  
South Carolina Department of Revenue  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Revenue (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2015, 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 eleven selected recorded operating 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 and restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$22,633,400 – general fund, \$245,500 – earmarked fund, and \$23,500 – restricted fund) and  $\pm 10$  percent.

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

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 and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$280,500 – general fund and \$245,500 – earmarked 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 twenty-four selected new employees and seventeen 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 and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$280,500 – general fund and \$245,500 – earmarked 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. We found no exceptions as a result of the procedures.

4. **Journal Entries, Operating Transfers between Subfunds and Interagency Appropriation/Cash Transfers**

- We inspected twenty-five selected recorded journal entries, all operating transfers between subfunds, and all interagency appropriation/cash 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 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*

- For each account, we obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2015, and inspected two selected 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.

*Cash Receipts and Revenues*

- We inspected one recorded receipt to determine if the receipt was properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected one recorded receipt to determine if this receipt was 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 four 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 four recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

We selected five transactions for testing. Our finding as a result of these procedures is presented in Composite Reservoir Account Reconciliations 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 Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency 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 year ended June 30, 2015, 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

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

8. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2014.

Our finding as a result of these procedures is presented in Composite Reservoir Account Reconciliations 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 Department of Revenue 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.

The Honorable Nikki R. Haley, Governor  
and  
Mr. Rick Reames, III, Director  
South Carolina Department of Revenue  
May 18, 2016

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 Governor and of the management of the South Carolina Department of Revenue 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 – VIOLATION 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 violation of State Laws, Rules or Regulations occurred.

The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

## **PETTY CASH APPROVAL**

### **Condition:**

During our testing of the Cash and Investments Reporting Package, we noted the Department did not receive approval from the State Auditor's Office to increase the balance of one petty cash account from \$450 to \$500.

### **Cause:**

Department personnel stated the lack of approval was due to agency oversight.

### **Effect:**

The Department was not in compliance with the Comptroller General's Disbursement Regulations.

### **Criteria:**

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

### **Recommendation:**

We recommend the Department request approval from the State Auditor's Office for the \$50 increase in this petty cash account and any subsequent increases.

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

The Department agrees with the recommendations of the State Auditor's Office, and has submitted a formal request for the \$50 increase in authorization. Further, the Department has researched its other Petty Cash balances, and submitted additional requests to help align the Department's authorization and cash amounts. The Department has also created procedures that will ensure that a discrepancy between authorization and cash balances will be detected timely, if such an occurrence were to happen in the future.

**SECTION B – OTHER WEAKNESS**

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

## **COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS**

### **Condition:**

During our testing of the composite reservoir account reconciliations, we noted the monthly reconciliations for the Bank of America and Wells Fargo composite accounts were not performed in a timely manner. We also noted that a number of reconciling items inappropriately remained on the reconciliations, some dating back to fiscal year 2013. A similar finding was reported in the fiscal year 2013 agreed upon procedures report.

### **Cause:**

Management of the Department indicated that these items inappropriately remained on the reconciliations for years for unknown reasons; however, changes to the reconciliation procedures were implemented during fiscal year 2016 and the Department has begun the process of cleaning up the reconciling items.

### **Effect:**

When reconciliations are not performed in a timely manner the risk that an error will fail to be detected and corrected in a timely manner increases.

### **Criteria:**

Effective internal controls require the Department to identify and investigate all reconciling items reflected on its reconciliations in order to determine the nature of each reconciling item and the reason it remains outstanding. By reviewing these reconciling items and following up on their status, there is a greater likelihood that the ending book balance reflected on the reconciliations depicts a more accurate figure of the agency's cash balance at month-end.

### **Recommendation:**

We recommend the Department continue to ensure that composite account reconciliations are prepared monthly shortly after month-end, that reconciling items are adequately explained and adjustments, if necessary, are recorded in the proper accounting records. The reconciliations should be prepared and reviewed by separate authorized personnel, and the preparation and review processes should be noted on the face of the reconciliations in the form of signatures and dates.

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

We agree with the recommendations of the State Auditor's Office, and have already implemented these changes during fiscal year 2016. The Department has established more concrete timeframes for researching and adjusting outstanding items, as well as creating checkpoints throughout the year for staff and management to discuss outstanding items. All composite reservoir account reconciliations will be current and updated by the end of fiscal year 2016.

**SECTION C – STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant’s Comments section of the State Auditor’s Report on the Department for the fiscal year ended June 30, 2013, and dated May 16, 2014. We applied no procedures to the Department’s accounting records and internal controls for the year ended June 30, 2014. We have repeated a similar finding titled Composite Reservoir Account Reconciliations in Section A of the report.

4 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$5.64. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.