

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2009**

## 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	5
COMPENSATED ABSENCES	6
SECTION B - OTHER WEAKNESSES	7
RECEIPT DATE	8
TRANSFER OF HOSPITAL TAXES	8
MANAGEMENT'S RESPONSE	9

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 28, 2010

The Honorable Mark Sanford, Governor  
and  
Mr. Ray N. Stevens, 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, 2009, 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 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 selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- 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 object code 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 (\$17,641,500 – general fund, \$169,700 – earmarked fund, and \$308,500 – restricted fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Receipt Date in the Accountant's Comments section of this report.

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

- We inspected 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; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$194,100 – general fund, \$192,700 – earmarked fund, and \$4,500 – restricted 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 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; payroll transactions, including employee payroll deductions, 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 selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$194,100 – general fund, \$192,700 – earmarked fund, and \$4,500 – restricted 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  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the Department'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 and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and 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 randomly. Our finding as a result of these procedures is presented in Transfer of Hospital Taxes in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the Department's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2009, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's 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 STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Departments accounting records and/or in STARS.

The Honorable Mark Sanford, Governor  
and  
Mr. Ray N. Stevens, Director  
South Carolina Department of Revenue  
September 28, 2010

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

7. **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 and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

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 Governor and of the management of the Department 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 - 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 violations 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.

## **COMPENSATED ABSENCES**

Department personnel used the wrong leave balance to calculate an employee's compensated absences liability for one of the ten balances tested. The employee did not submit a leave request timely. As a result the employee's leave was not posted to the leave liability report which was used to generate the compensated absences closing package.

Section 3.17 of the Comptroller General's Office GAAP Closing Procedures Manual states, "The accumulated unused annual leave earned by employees at June 30 is the actual annual leave balance in the agency's records for each employee."

We recommend that the Department review its policy and procedures designed to ensure that all leave taken before the end of June is posted to the leave system before the calculation of the year-end compensated absences liability.

## **SECTION B - OTHER WEAKNESSES**

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

## **RECEIPT DATE**

Because the Department does not document the date of receipt for agency administrative fee receipt transactions, we were unable to determine if the receipt was deposited timely as required by Section 89.1 of the 2008-09 Appropriation Act. To test compliance, we used alternative documentation, such as the check date. However, for one of the twenty-five transactions tested, we could not determine if the receipt was in compliance because the supporting documentation did not include a date reference.

We recommend that the Department develop and implement a policy requiring accounting personnel to document the receipt date for agency administrative fee receipts.

## **TRANSFER OF HOSPITAL TAXES**

The Department of Revenue collects hospital taxes and transfers them to the Department of Health and Human Services in accordance with State law. The Department of Health and Human Services provides details of all fiscal year hospital tax receipts to the Comptroller General's Office. The Comptroller General's Office calculates an associated deferred revenue and receivable for the statewide financial statements using the details provided.

We tested a July 2008 hospital tax transfer which represented hospital tax revenue collected in fiscal year 2007-08. The Department of Revenue inadvertently recorded this transfer as a fiscal year 2008-09 transaction. As a result the Department of Health and Human Services did not report the transaction to the Comptroller General's Office and the fiscal year 2007-08 hospital tax revenue was misstated.

We recommend the Department of Revenue review its procedures for recording hospital taxes revenue to ensure that the revenue and transfers are recorded in the proper fiscal year.

**MANAGEMENT'S RESPONSE**

---

State of South Carolina  
Department of Revenue  
301 Gervais Street, P.O. Box 125, Columbia, South Carolina 29214

---

November 22, 2010

Mr. Richard H. Gilbert, CPA  
Deputy State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Mr. Gilbert:

This letter is in response to the exceptions found during the Agreed Upon Procedures (AUP) audit of the SC Department of Revenue for the fiscal year ended June 30, 2009.

Compensated Absences

The exception noted during the FY2009 audit represents a violation of the Comptroller General's policy and procedures and was an isolated incident that occurred after the closing package was submitted to the CG's Office. The Department of Revenue is aware of the policy and procedures for completing the compensated absences closing package as outlined in section 3.17 of the Comptroller General's closing package procedures manual.

While every effort is made to encourage employees to submit leave slips within established timeframes, the Department will review its' policy and procedures to ensure that all leave taken prior to June 30 is recorded on the system before the calculation of the compensated absences leave liability. In addition, the closing package preparer will continue to verify randomly selected leave balances to provide reasonable assurance that balances are accurate before the closing package is submitted.

Receipt Date

Corrective action has been taken on this finding. The Department of Revenue finance team has implemented a policy to ensure that all checks for deposit that represent agency administrative fee receipts (operating receipts) will be stamped with the date received. The date stamped copies will provide evidence of timely deposit and will become a part of the supporting documentation for each deposit.

Transfer of Hospital Taxes

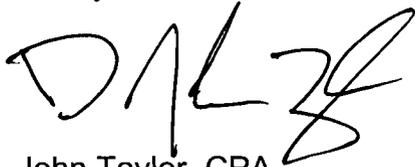
The Department of Revenue transfers the collections of this tax to the Department of Health and Human Services along with a detail report of transactions that supports the amount transferred.

An agency finance employee will carefully review each transfer to ensure that the dollar amount to be transferred matches the amount of the detailed transaction report

for the same period, and that the appropriate fiscal month and year is indicated on the system-generated STARS appropriation transfer document.

Please contact me or Kevin Dailey if you have questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'DJT' followed by a stylized flourish.

D. John Taylor, CPA  
Chief Financial Officer

A handwritten signature in black ink, appearing to read 'K Dailey' with a circular flourish at the end.

Kevin Dailey  
Controller

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.