

**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 12, 2018

Members of the Board
South Carolina Revenue and Fiscal Affairs Office
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Revenue and Fiscal Affairs Office (the Office), on the systems, processes and behaviors related to financial activity of the Office for the fiscal year ended June 30, 2017. The Office's management is responsible for the systems, processes and behaviors related to financial activity. 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 either for the purpose for 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 related to financial activity of the Office. 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 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 \$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.

This report is intended solely for the information and use of the governing body and management of the South Carolina Revenue and Fiscal Affairs Office 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.

Yours very truly,

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures - South Carolina Revenue and Fiscal Affairs Office (E50)**

Cash Receipts/Revenues

1. Compared current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtained and documented an understanding of variations over \$40,000 and 10%.
2. Randomly selected twenty-five cash receipts transactions and inspected 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, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly selected ten cash receipts and inspected supporting documentation to determine that receipts were recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compared current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtained and documented an understanding of variations over \$40,000 and 10%.
5. Randomly selected twenty-five non-payroll disbursements and inspected supporting documentation to determine:
 - Transaction was properly completed as required by Office procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Office procedures were present and agreed with the invoice.
 - The transaction was a bona fide expenditure of the Office, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.
 - For the two P-card statements selected, haphazardly selected three transactions from the statement and determined that the cardholder was authorized, the transaction was a bona fide expenditure of the Office supported by a receipt and did not exceed transaction limitations.
6. Randomly selected ten non-payroll disbursements and inspected supporting documentation to determine that disbursements were recorded in the proper fiscal year.

We found no exceptions as a result of the procedures, except as described in the finding of the Reporting Packages section.

Payroll

7. Compared current year payroll expenditures at the subfund and account level to those of the prior year. Obtained an understanding of variations over \$40,000 and 10%.

Payroll (Continued)

8. Randomly selected nine employee payments and inspected supporting documentation during the fiscal year to:
 - Obtain and inspect 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 Office.
 - Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.
9. Haphazardly selected five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Office's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
10. Haphazardly selected five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Office'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.
11. Compared the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtained an explanation of variations over 10%.
12. Computed the percentage distribution of fringe benefit expenditures by fund source and compared to the actual distribution of recorded personal service expenditures by fund source. Obtained an explanation of variations over 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

13. Randomly selected four journal entries and one transfer 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 the procedures.

Appropriation Act

14. Inspected the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
15. Confirmed compliance with Office-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Reporting Packages

16. Obtained copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspected 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.

Reporting Packages (Continued)

17. In addition to the procedure above, we performed the following:

- Capital Assets Reporting Package

Determined if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Office prepared records. Haphazardly selected two capital asset acquisitions to (1) determine that the asset was properly posted to the general ledger as to amount and account, (2) inspected documentation to determine that the asset was properly capitalized, (3) determined that the asset was assigned useful life in accordance with Exhibit 3.8 (B) of CG's Reporting Policies and Procedures Manual. Haphazardly selected three capital asset retirements to determine (1) the capital asset has been fully depreciated over an appropriate estimated useful life for depreciation and (2) that the amounts calculated for depreciation and accumulated depreciation were correct.

- Operating Leases Reporting Package

Determined if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Office prepared records. In addition, based on inspection of invoices and lease agreements, determined if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Four haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One-Time Rental Payments) and (3) All future rental payments for operating leases.

- Subsequent Events Questionnaire

Determined if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Office prepared records. In addition, selected the payable from the Subsequent Events Accounts Payable Worksheet and determined if the amount was properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Finding

Inspection of Operating Leases Reporting Package supporting documentation, and five related disbursement transactions selected in procedure 5, revealed that both contingent and base rental payments were combined when coded to the accounting system and when reported on the reporting package. This resulted in an overstatement, in excess of \$1,000, of contingent rental payments reported on the Operating Leases Reporting Package.

Management's Response

We agree with this finding. Finance management has reviewed the general ledger account definitions for base lease and contingent rental payments with staff tasked with processing payments. In addition, the Office has begun to reconcile operating lease payments to the terms of the agreement as part of the year-end process.

Minutes

18. We inspected the Office's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.

Status of Prior Findings

19. Through inquiry and inspection, determined if the Office has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found no exceptions as a result of the procedures.