

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

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

August 1, 2018

Mr. W. Hartley Powell, Director
South Carolina Department of Revenue
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 Revenue (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department'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 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.

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

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures - South Carolina Department of Revenue (R44)**

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 \$20,000,000 and 10% for the General Fund and \$1,000,000 and 10% for the Earmarked and Restricted Funds.
2. Randomly select ten operating revenue 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, 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 select five operating revenue transactions and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of General and Earmarked Fund variations over \$500,000 and 10%.
5. Randomly select fifteen non-payroll operating 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 Department procedures 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 applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / confirm proper sales/use tax.
6. Randomly select fifteen non-payroll operating disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$500,000 and 10%.

Payroll (Continued)

8. Randomly select eighteen 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.
9. Randomly select eighteen 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.
10. Compare 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. Obtain an explanation of variations over 10%.
11. 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 variations over 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

12. Randomly select twenty-five transfers 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

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

Finding

In fiscal year 2017, the Department did not fully complete its annual inventory of personal property in accordance with South Carolina Code of Law 10-1-140.

Management's Response

Due to staff turnover, DOR did not fully complete its annual inventory of personal property during fiscal year 2017. DOR did complete a full inventory during fiscal year 2018.

Reporting Packages

15. 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.

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

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Reporting - Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices and Department prepared reports/spreadsheets.

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.

Haphazardly select five capital asset acquisitions and inspect supporting documentation to determine the asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with State policy.

Haphazardly select two capital asset retirements and inspect supporting documentation to determine the asset was properly removed from the Department's books and the disposal was properly approved.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected payments in Part I of the Operating Leases Summary Form (2) Five haphazardly selected operating leases.

Reporting Packages (Continued)

- Accounts Payable Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor report and/or Department prepared records. In addition, haphazardly select five reported payables to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices and Department prepared reports/spreadsheets.

- Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package

Determine if responses and all amounts reported are reasonable/accurate based on inspection of invoices and/or contractual agreements.

- Subsequent Events Questionnaire

Determine 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 Department prepared records. In addition, inspect all (five) payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

We found no exceptions as a result of the procedures.

Composite Reservoir Accounts

17. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
18. Obtain fiscal year monthly reconciliations for each composite reservoir account and for eight haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
19. Inspect five haphazardly selected composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.

Composite Reservoir Accounts (Continued)

20. Inspect five haphazardly selected composite reservoir account 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Internal Audit Reports

21. Inspect the Department's internal audit reports beginning with the end date of prior year fieldwork through the end of our fieldwork.

No reports were provided for our inspection based on the explanation that no reports relating to our procedures were issued during the applicable timeframe.

DORWay Report

22. Obtain the fiscal year 2018 DORWay Allowance For Doubtful Accounts Report. Compare the current balance of five haphazardly selected account types on the report to Department records. Haphazardly select twenty-five individual balances from the Department's records and inspect supporting documentation to confirm proper inclusion and classification on the DORWay report.

We found no exceptions as a result of the procedures.

Status of Prior Findings

23. Through inquiry and inspection, determine if the Department 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.