

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2018**



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 7, 2019

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) on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. 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:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

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.

George L. Kennedy, III, CPA  
State Auditor

**South Carolina Office of the State Auditor  
Agreed - Upon Procedures Related to 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 from management an understanding of variations over \$1,000,000 and 10% for the General Fund and \$100,000 and 10% for the Federal Fund.
2. Randomly select ten cash receipts transactions and inspect supporting documentation to:
  - Agree transaction amount, date, payer, document number, and account classification to the general ledger.
  - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2018 Appropriation Act.
  - Ensure that both revenue collections and amounts charged are properly authorized by law.
  - Determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

**Cash Disbursements/Non-Payroll Expenditures**

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$150,000 and 10% for the Earmarked Fund, \$60,000 and 10% for the Restricted Fund, and \$100,000 and 10% for the Federal Fund.
4. Randomly select eight non-payroll disbursements and haphazardly select two disbursements from general ledger account 5170800000 (Allocations Private Sector) 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.
  - The transaction is properly classified in the general ledger.
  - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
  - Determine that disbursements are recorded in the proper fiscal year.
  - Clerical accuracy/ confirm proper sales/use tax.
5. Haphazardly select ten purchasing card transactions from the Comptroller General's listing of purchasing card transactions for fiscal year 2018 and inspect supporting documentation to determine:
  - The cardholder is an authorized user.
  - The purchase is authorized based on the cardholder's job title/position.
  - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
  - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of these procedures.

## **Payroll**

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$150,000 and 10% for the Earmarked Fund.
7. 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 greater than 10%.
8. 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 changes greater than 10%.
9. Randomly select ten employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- 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 Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- 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 Department.
  - Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.
10. Haphazardly 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.
  11. Haphazardly 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.

We found no exceptions as a result of these procedures.

## **Journal Entries and Transfers**

12. Haphazardly select 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 these procedures.

## **Reporting Packages**

13. 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.

## Reporting Packages (Continued)

14. In addition to the procedure above, 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 South Carolina Enterprise Information System (SCEIS) Yearend Rptg -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.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) One haphazardly selected payment for up to two vendors included in each of the remaining rental payment classifications (One time or unusual in nature rental payments, Printer & Copier Maintenance Contract, and Mail Machine Service and Supplies); and (3) Three haphazardly selected Future Minimum Lease payments.

- Accounts Payable

Haphazardly select three accounts payable transactions to determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Rptg -Prior Year Payables with Vendor and/or Department prepared records.

- Litigation Reporting Package

Determine if the Department obtained approval from the Attorney General's Office to hire attorneys and to ensure proper coding of legal and attorney payments based on inspection of the SCEIS general ledger and the Yearend Rptg - Litigation Expense. Haphazardly select five transactions to inspect for proper approval, amounts charged within approved limits, and service date range.

- 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.

## Findings

### Operating Leases Reporting Package

The Department improperly reported \$9,558 of contingent rental expenditures as current lease expense on the future minimum lease payment schedule. In addition, the Department did not report \$1,921 on the Operating Leases Summary Form. Of this amount, \$1,415 should have been reported as other detailed rental charge and \$505 should have been reported as current lease expense on the future minimum lease payment schedule. Further, during our inspection of operating leases we identified various calculation errors on the Operating Leases Future Minimum Payment Schedule. As a result of these errors we identified the Department understated the periodic payments amount by \$12,158, overstated the current expenses amount by \$7,638, and overstated the future minimum payments amount by \$14,504.

## **Reporting Packages (Continued)**

### **Findings (Continued)**

#### **Grants and Contributions Revenue Reporting Package**

The Grants and Contributions Revenue Reporting Package was not submitted to the Office of the Comptroller General (CG) by the due date established by the CG's Reporting Policies and Procedures Manual. The package was submitted one day late.

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

We concur with the finding on the Operating Lease Reporting Package and will review general ledger postings in future years to ensure that correct classifications are used. The delay in the Grants and Contributions Revenue Reporting Package was a result of information received that indicated this was not required since we had no activity. Immediately upon notification otherwise, this was submitted (i.e. the one day late reference).

#### **Governance, Risk and Compliance (GRC) SCEIS Module**

15. Select all (five) controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of these procedures.

#### **Appropriation Act**

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

We found no exceptions as a result of these procedures.

#### **Capital Assets**

18. Haphazardly select five capital asset retirements and inspect supporting documentation to determine:
  - The asset was originally recorded in the proper asset class.
  - The asset was properly removed from the Department's books.
  - The asset disposal was properly approved.

We found no exceptions as a result of these procedures.

#### **Credit Card System**

19. Obtain 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.

#### **Finding**

During our inspection of the Department's year-end reconciliation of its credit card system to SCEIS we observed an adjusting entry made to the reconciliation did not agree to the journal entry posted in SCEIS. This resulted in an understatement of revenues in the general fund and an overstatement of revenues in the earmarked fund by \$576 at year-end.

## Credit Card System (Continued)

### Management's Response

We concur with the finding. Credit card transactions for the end of June 2018 were not received timely from SC.gov and therefore two were inadvertently not adjusted during year-end and closeout. This was the only month where this situation occurred. Procedures have been put in place to prevent this from reoccurring in the future.

### Status of Prior Findings

20. 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 determined the Department has taken adequate corrective action on each of the findings, except we identified a similar finding related to the Operating Leases Reporting Package. See finding at **Reporting Packages**.