

**SOUTH CAROLINA
OFFICE OF THE ADJUTANT GENERAL**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 17, 2019

Major General R. Van McCarty
Adjutant General
State of South Carolina
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Office of the Adjutant General (the Office), on the systems, processes and behaviors related to financial activity of the Office for the fiscal year ended June 30, 2018. 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:

- 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 Office of the Adjutant General 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 Office of the Adjutant General (E24)**

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 \$15,000 – General Funds, \$75,000 – Earmarked Funds, \$15,000 – Restricted Funds, \$850,000 – Federal Funds and 10%.
2. Haphazardly select twenty cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, 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 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 the 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 \$130,000 – General Funds, \$300,000 – Earmarked Funds, \$15,000 – Restricted Funds, \$1,000,000 – Federal Funds and 10%.
4. Haphazardly select twenty non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is 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 are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Office.
 - 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.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures selected, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General (CG) 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 the 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 \$130,000 – General Funds, \$300,000 – Earmarked Funds, \$15,000 – Restricted Funds, \$1,000,000 – Federal Funds and 10%.
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 variations greater than 10%.
9. Randomly select fifteen 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.
10. Randomly select fifteen 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.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

11. Haphazardly select twenty journal entries and five transfers 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.

Journal Entries and Transfers (Continued)

Finding

Three of the twenty journal entry transactions inspected were to record the cost of a service received, but a supplies expenditure account was used instead of a services expenditure account.

Management's Response

Training will be provided to finance staff to ensure they are aware of and following our policies and procedures when preparing and approving journal entries.

Reporting Packages

12. Obtain copies of fiscal year end reporting packages submitted to the 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.
13. In addition to the procedure above, perform 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 Office prepared records. In addition, determine if Deposits with Banks Reporting Form amounts agree to SCEIS, Office prepared records, and/or State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Grants and Contributions Revenue Reporting Package

Haphazardly select ten grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, fund, grant number, and CFDA number agree to the SCEIS general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue.

- Other Receivables Reporting Package

Haphazardly select five receivables to determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Accounts Receivable Current with Customer report and/or Office prepared records.

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Reporting - Inventory report or Office prepared records.

- 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 Office prepared records.

Reporting Packages (Continued)

- Unearned Revenue Reporting Package

Determine if reported amounts agree to SCEIS and/or Office prepared records.

- Interfund Payables and Receivables Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on the inspection of SCEIS general ledger, SCEIS Yearend Reporting – Inter-Agency Prior Year Payables and/or Office prepared records.

- Operating Leases Reporting Package

Agree applicable effective dates and future minimum lease payments on the Future Minimum Lease Payment Schedule to the prior year Schedule. For any new operating leases reported, determine that the effective dates, periodic minimum payment, current expense, and future minimum lease payments were accurately reported based on inspection of invoices and lease agreements.

- Accounts Payable Reporting Package

Haphazardly select ten payables to determine if reported amounts were properly identified, classified, and reported based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor, SCEIS Yearend Reporting – Inter-Agency Prior Year Payables, and/or Office prepared records.

- 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 Office prepared records. In addition, haphazardly select 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.

Findings

Timely Reporting - Similar to the finding reported in the prior year, four of the thirteen reporting packages submitted to the CG were submitted one to five days after the reporting package due date.

Cash and Investments Reporting Package - We were unable to confirm some information, such as dates and bank statement balances reported on the reporting package, due to lack of adequate documentation.

Grants and Contributions Revenue Reporting Package - Discrepancies between reported information and supporting documentation were encountered for seven of the ten grants selected for inspection.

Reporting Packages (Continued)

Findings (Continued)

Inventory Reporting Package - An approximate \$3,000 discrepancy between reported inventory amounts and Office count sheets was encountered. Also, one of the inventory counts was performed after year end and the Office did not notify the State Auditor's Office of their inventory dates, as required.

Capital Assets Reporting Package - Similar to the finding reported in the prior year, discrepancies were encountered with the amount reported for construction commitments. The reported amount was understated due to the commitment amount not being measured as of June 30.

Operating Leases Reporting Package - Similar to the finding reported in the prior year, discrepancies associated with the Future Minimum Payment Schedule were encountered. One calculation error, overstating total reported future minimum lease payments by approximately \$9,000, was encountered and documentation was not adequate to confirm the accuracy of future minimum lease payment information associated with several other items reported on the schedule.

Subsequent Events Questionnaire - Not all responses were accurately completed on the questionnaire, including an update for late leave impacting the associated accrued liability. In addition, supporting documentation was not adequate to confirm the approximately \$700,000 of payables reported on the Subsequent Events Accounts Payable Worksheet.

Management's Response

All reporting packages will be properly reviewed to ensure the reporting packages are properly completed and in agreement with the supporting documentation. Also, training will be provided to finance staff when necessary.

Composite Reservoir Accounts

14. Obtain a listing of Office bank accounts and confirm with management that the listing is complete.
15. Obtain fiscal year monthly reconciliations for select Office bank accounts and for three haphazardly selected reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, 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.
16. Haphazardly select and inspect ten Office bank account receipts to determine that they were properly described and classified in the accounting records in accordance with the Office'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)

17. Haphazardly select and inspect ten Office bank account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Office's policies and procedures and State regulations, were bona fide disbursements of the Office, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Findings

Similar to the finding reported in the prior year, documentation was not adequate to confirm the proper completion of some bank reconciliations.

In addition, a receipt date was not documented for eight of the ten receipts selected, and one of the ten disbursement transactions selected did not include documentation adequate to support the transaction.

Management's Response

Reconciliations will be reviewed by management. This review will ensure the reconciliations are completed timely and all supporting documentation is accurate and maintained.

Governance, Risk and Compliance (GRC) SCEIS Module

18. Select all 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 the procedures.

Appropriation Act

19. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
20. Confirm 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.

Capital Assets

21. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
22. Haphazardly select five capital asset retirements and inspect supporting documentation to ensure that assets were properly disposed in accordance with applicable State regulations.

Capital Assets (Continued)

23. Inspect the State of South Carolina Comprehensive Permanent Improvement Plan, Summary of Permanent Improvement Projects applicable to the Office to determine impact on our agreed upon procedures.

Finding

One of the five capital asset acquisitions inspected was capitalized at a value below the State's capitalization threshold.

Management's Response

All assets will be reviewed and capitalized according to policy in a timely manner.

TAG Employee Group, Inc.

24. Inspect TAG Employee Group, Inc. accounting policies and procedures to determine impact on our agreed upon procedures.
25. Haphazardly select and inspect one TAG Employee Group, Inc. disbursement to determine compliance with TAG Employee Group accounting policies and/or State and Office policy.

A complete set of written accounting policies and procedures was not available to complete procedure 24. Also, the Office did not receive a payment in fiscal year 2019 from the TAG Employee Group, Inc. for its share of parking profits from the previous year. However, that payment has been received and deposited in fiscal year 2020. Otherwise, we found no exceptions as a result of the procedures.

Status of Prior Findings

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

We determined that the Office has taken adequate corrective action on the findings, except where noted in the Reporting Packages and Composite Reservoir Accounts findings above.