

**SOUTH CAROLINA
DEPARTMENT OF ADMINISTRATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

February 6, 2020

Ms. Marcia S. Adams, Executive Director
South Carolina Department of Administration
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 Administration (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. 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 Administration 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 the South Carolina Department of Administration (D50)**

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 \$1,700,000 and 10% for the Earmarked Fund and \$2,000,000 and 10% for the Federal Fund.
2. Haphazardly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Ensure transaction amount, date, payor, document number, and account classification are properly reported in the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner in accordance with Proviso 117.1 of the fiscal year 2019 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.

Finding

The receipt date was not documented for one receipt transaction. As a result, we were unable to determine if the revenue was deposited in a timely manner in accordance with Proviso 117.1 of the fiscal year 2019 Appropriation Act.

Management's Response

The Department's procedure is to post deposits within 3 business days and checks are typically posted on the date of receipt. Occasionally we will receive a check dated more than one week prior to our deposit, which is usually a result of postal service timing or the check being mailed directly to an office of the Department. In the case of the latter, the office then must forward the check to the Department's finance office resulting in a delay in depositing. As an enhancement to our current processes, we will begin date stamping checks when received.

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 \$3,000,000 and 10% for the General Fund, \$1,300,000 and 10% for the Earmarked Fund, and \$2,000,000 and 10% for the Federal Fund.
4. Haphazardly select twenty-five non-payroll 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.
 - 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.

Cash Disbursements/Non-Payroll Expenditures (Continued)

For federally funded cash disbursements/non-payroll expenditures, 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.
5. Haphazardly select ten purchasing card transactions from the Comptroller General's listing of purchasing card transactions for fiscal year 2019 and inspect supporting documentation to determine:
- The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - 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.

Finding

Per our observation of the monthly certification form provided by the Department, we determined a purchase made in January 2019 was not certified by the employee and the employee's supervisor until January 2020.

Management's Response

Procedures have been implemented by the Department to ensure timely certification including two employees having access to statements and ensuring certifications are signed and sent timely.

Also, the Purchasing Card administrator has implemented a check list to verify all information has been received and images have been uploaded into Bank of America's electronic card payment management service (WORKS) prior to cut-off.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an explanation of variations greater than 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. Haphazardly 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.

Payroll (Continued)

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.
9. Haphazardly select ten 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. Haphazardly select ten 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.
11. Haphazardly select three bonus pay disbursements to determine:
- Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Payment agreed to supporting documentation.
 - Bonus pay was approved by the appropriate supervisor.

Finding

Two employees who terminated employment in April 2018 were not removed from the South Carolina Enterprise Information System (SCEIS) payroll system until August 2018. In addition, we observed another employee last entered time in SCEIS in August 2015 but was not removed from the SCEIS payroll system until November 2018. We could not locate a resignation letter or other documentation to determine the employee's actual resignation date; further, the employee did not appear on the fiscal year 2018 or 2019 Labor Distribution Report so was not paid during those timeframes.

Additionally, one employee who terminated employment was overpaid on their final pay check by \$338.

Management's Response

Beginning July 1, 2019, the Department implemented an improved process for handling the separation of temporary employees. Among the changes in this new process, the Department implemented a new tracking log that will assist Human Resources in monitoring these termination actions to ensure all steps are completed timely and accurately.

Journal Entries and Transfers

12. Haphazardly select ten journal entries and 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.

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.
14. In addition to the procedure above, perform the following:
 - **Prepaid Expenses Reporting Package**

Determine if amounts agree to the 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**

Confirm that the Department submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions. Additionally, for five haphazardly selected leases, determine the effective and expiration dates and future minimum payments were properly calculated and reported on the Future Minimum Payment Schedule.
 - **Accounts Payable**

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. Haphazardly select ten payables to determine if the reported amounts were properly identified, classified, and calculated on the Accounts Payable Summary Form.
 - **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, 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

Prepaid Expenses Reporting Package - We determined that the Department double counted one prepaid expense transaction. As a result, fiscal year 2019 expenses were overstated by \$3,113, current prepaid expenses were overstated by \$37,357, and non-current prepaid expenses were overstated by \$71,601 on the reporting package.

Additionally, we observed that the Department did not take corrective action on the finding reported on the prior year State Auditor's Report. As a result, fiscal year 2019 expenses were understated by \$9,739, current prepaid expenses were understated by \$9,559, and non-current prepaid expenses were understated by \$9,350 on the reporting package.

Operating Leases Reporting Package - We observed multiple reporting and calculation errors for three leases resulting in the Department's future minimum payments being understated by \$241,174 on the reporting package.

Reporting Packages (Continued)

Accounts Payable Reporting Package - The Department did not report interdepartmental payables on the reporting package. As a result of this omission, total payables were understated by \$441,811.

Subsequent Events Questionnaire

The Department did not report subsequent interdepartmental payables on the Subsequent Events Accounts Payable Worksheet. As a result of this omission, total payables were understated by \$364,505.

Management's Response

We agree with the Prepaid Reporting Package finding and have taken steps to update our prepaid expenses analysis worksheets to ensure proper calculation of prepaid expenses in the future. In addition, we have made the Comptroller General's Office aware that the Year End CAFR report is not pulling in reversal documents on the Year End Prepaid Expenses report used by agencies which lead to the duplication in the amount of \$112,071.

The Department's Office of Administrative Services reviewed the Operating Lease Reporting Package finding with the year end reporting staff and will implement a review process to ensure typos and missed calculations will be corrected going forward.

The Department's Office of Administrative Services reviewed the Accounts Payable and Subsequent Events Reporting Package findings with the year end reporting staff and the Accounts Payable Manager to ensure communication and proper reporting of interfund transfers less than \$100,000 on the reporting packages going forward.

Assets and Personal Property

15. Haphazardly select three 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.
16. Confirm compliance with South Carolina Code of Laws Section 10-1-140 by observing the inventory count documentation completed by management.
17. Inspect the Department's portion of the Summary of Permanent Improvement Projects from the South Carolina 2018 Comprehensive Permanent Improvement Plan for the Plan Years 2019-2023. Through inquiry, document the status of each project to determine if the plan is an accurate representation of the Department's activities.

Finding

During our inspection of the Department's inventory count documentation, we observed that multiple divisions did not complete an inventory count during the fiscal year 2019. Therefore, the Department was not in compliance with South Carolina Code of Laws Section 10-1-140.

Management's Response

The Department acknowledges this finding. In order to prevent this finding from occurring in the future, The Department's finance staff will send the divisions their asset listings earlier in the fiscal year with a return date prior to June 30th. This new process will provide the divisions and the finance staff additional time to complete, review and adjust the report by June 30th.

Appropriation Act/Laws

18. Confirm that the Department submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first of the fiscal year in accordance with Proviso 117.13 of the fiscal year 2019 Appropriation Act.
19. 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 the procedures.

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.

Finding

We determined the Department has taken adequate corrective action on the findings with exception of a similar exception observed regarding the Prepaid Expenses Reporting Package. See finding at **Reporting Packages**.