

**SOUTH CAROLINA
DEPARTMENT OF MOTOR VEHICLES
BLYTHEWOOD, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

April 21, 2020

Mr. Kevin A. Shwedo, Executive Director
South Carolina Department of Motor Vehicles
Blythewood, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Motor Vehicles (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 Department 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 Motor Vehicles (R40)

Cash Receipts/Revenues

1. Compare current year revenues at the fund 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 \$100,000 and 10%.
2. Haphazardly select five cash receipts transactions not relating to the collections of motor vehicle fees account or International Fuel Trade Agreement revenue and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - 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 fund and account level to those of the prior year. Obtain from management an understanding of variations over \$1,000,000 – General Fund, \$500,000 – Earmarked Fund, \$100,000 – Federal Fund and 10%.
4. Haphazardly select six disbursements not relating to payroll or refunds and inspect supporting documentation to determine:
 - The 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.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

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 five purchasing card transactions from the Office of the State Comptroller General's (CG) 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.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- 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 fund and account level to those of the prior year. Obtain from management an understanding of variations over \$1,000,000 – General Fund, \$500,000 – Earmarked Fund, \$100,000 – Federal Fund 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 changes greater than 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

9. Haphazardly select eight 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 procedure.

Reporting Packages

10. 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 submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
11. 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 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.

Reporting Packages (Continued)

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting - Operating Lease Expense w/ 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) the effective dates, and future minimum lease payments of five haphazardly selected operating leases; and (2) five haphazardly selected contingent rental payments. Also, confirm that the Department submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.

- Accounts Payable Reporting Package

Determine if reported payable amounts are reasonable/accurate based on agreement of reporting package totals to the SCEIS Yearend Reporting - Prior Year Payables with Vendor and SCEIS Yearend Reporting - Inter-Agency Prior Year Payables with Vendor Business Warehouse reports, and/or Department prepared records. In addition, haphazardly select five payable transactions to determine if reported amounts were properly identified, classified, and reported on the reporting package.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and that all 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

Operating Lease Reporting Package - While inspecting one haphazardly selected invoice, we determined that this lease payment should have been reported as an operating lease with future minimum lease payments instead of as a contingent rental. As a result, future minimum lease payments were understated by \$525, and contingent rental was overstated by \$1,702.

Additionally, there were calculation errors for another selected operating lease with future minimum lease payments resulting in an additional overstatement of \$76,392 for future minimum lease payments.

Prepaid Expenses Reporting Package - For one of the five selected prepaid expenses selected for inspection, the prepaid amounts were calculated incorrectly. As a result, the error understated current prepaid amounts by \$6,706 and overstated noncurrent prepaid amounts by \$8,196. Similar instances of calculation errors were observed in the 2018 State Auditor's Report. Additionally, for a different selected prepaid expense transaction, the Department reported the expense in the incorrect general ledger account.

Management's Response

Operating Lease Reporting Package - The Department agrees with the finding. After reviewing the lease agreement, it was determined the lease was in fact an operating lease. For future reporting, the lease agreements will be reviewed to ensure accurate classification of leases. The Department also agrees with the additional finding concerning future minimum lease payments for the other lease. Please note however, at the time of completion of the Operating Lease Reporting Package, it was believed this lease would continue on a month to month schedule. To ensure the additional payments would be captured, these amounts were added to the future minimum lease payments. For future reporting, the lease agreements will be reviewed to ensure accurate amounts are reported.

Reporting Packages (Continued)

Management's Response (Continued)

Prepaid Expenses Reporting Package - The Department agrees with the finding. After reviewing the Prepaid Expenses Reporting Package and documents associated with this package, it was determined the incorrect dates were applied in the calculation of one line item. Additionally, we realized that the offsetting expenditure commitment item code was inadvertently entered rather than the actual general ledger account code. In the future, finance staff will review dates and general ledger account codes more thoroughly to avoid errors.

Composite Reservoir Accounts

12. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
13. Confirm that the Department submitted the required Bank Account Transparency and Accountability Report to the State Fiscal Accountability Authority by October first of the fiscal year in accordance with Proviso 117.83 of the Appropriation Act.
14. Obtain fiscal year monthly reconciliations for each composite reservoir account, and for the year-end reconciliations of both accounts, 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.

We found no exceptions as a result of the procedures.

Assets and Personal Property

15. 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.
16. Haphazardly select five capital asset retirements and inspect supporting documentation, and the SCEIS Asset History Sheet, to determine that each asset was approved for removal, and that the asset was properly removed from the Department's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
17. Confirm that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.
18. 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 in accordance with South Carolina Code of Laws Section 2-47-55. Through inquiry, document the status of each project to determine if the plan is an accurate representation of the Department's activities.

Assets and Personal Property (Continued)

Finding

For one capital asset acquisition selected for inspection, we observed that the Department included sales tax related to two other capital assets, on the same invoice, when recording the asset's book value in the accounting system. As a result, the value of the inspected capital asset was overstated by approximately \$1,830. In the prior year there was a similar finding associated with recording the book value of a capital asset.

For another capital asset acquisition, we observed that the Department inappropriately capitalized furniture of \$1,897, which is below the \$5,000 capitalization threshold.

Management's Response

The Department agrees with the finding. In reviewing the payment document for the capital asset, it was determined the sales tax was not split across all items included on the payment document. When processing the payment document, Accounts Payable included the correct tax amount; however, was unaware the tax amount would not split across each line item. In the future, payment documents including multiple assets will be reviewed to ensure taxes are split correctly against assets.

The Department also agrees with the additional finding for another capital asset acquisition being inappropriately capitalized. In reviewing this asset, it was determined the asset was inadvertently classified as office furniture rather than the correct classification of low value asset, which has a \$1,000 threshold. In the future, Asset staff will more closely review the assets to ensure the correct classification assignment to comply with the capitalization standards.

Litigation / Attorney Payments

19. Haphazardly select three transactions coded to the legal services general ledger account 5021010000 from the Yearend Reporting – Litigation Expense Report to inspect for proper account coding and that the transactions did not relate to attorney payments.
20. Haphazardly select two law firm transactions coded to the attorney fees general ledger account 5021020000 from the Yearend Reporting - Litigation Expense Report and determine if the Department obtained proper approval from the South Carolina Attorney General's Office before engaging the law firm on a fee basis, and that amounts and service date ranges were charged within approved limits.

We found no exceptions as a result of the procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

21. Haphazardly select the one control identified through the SCEIS GRC system that was put in place during fiscal year 2019 and inspect mitigating control documentation. Confirm with management the control is operating as designed.

We found no exceptions as a result of the procedure.

Appropriation Act / Department-Specific Provisos

22. 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 Appropriation Act.
23. 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

24. 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 that the Department has taken adequate corrective action on the findings reported during the engagement for the prior fiscal year, except for the prepaid expenses reporting package and capital asset acquisition findings above.