Independent Accountant’s Report on Applying Agreed-Upon Procedures

June 17, 2020

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, 2019. 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 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 $1,200,000 – Earmarked Funds, $20,000,000 – Federal Funds and 10%.

2. Haphazardly select fifteen 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 Appropriation Act.
   - Ensure that both revenue collections and amounts charged are properly authorized by law and that any fee increases are in accordance with Proviso 117.7 of the Appropriation Act.
   - 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 for the following: General Fund: General Ledger (G/L) Account series 505 – Travel and G/L Account series 518 – Allocations State Aid; Earmarked Fund: G/L Account series 503 – Supplies & Materials and G/L Account series 517 – Allocations; and Federal Fund: G/L Account series 503 – Supplies & Materials, G/L Account series 504 – Fixed Charges, and G/L Account series 517 – Allocations.

4. Haphazardly select fifteen 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)

Finding

For one transaction inspected, approvals for payment of blanket bond coverage, required by South Carolina Code of Laws Section 1-11-180, could not be confirmed. For another transaction inspected, it could not be confirmed if use tax was properly applied to the purchase.

Management’s Response

For blanket bond coverage, a notation will be made to the Office checklist to include approval on an annual basis.

For Sales Tax, a Sales/Use Tax instruction will be prepared and sent out on an annual basis to all personnel who prepare purchases to instruct them on when Sales Tax should be paid on purchases, and when Use Tax should be added to invoices that do not include Sales Tax (usually out-of-state purchases).

Payroll

5. Compare current year payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations for the following: Federal Fund: G/L Account series 501 – Salaries and G/L Account series 513 – Fringes.

6. 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%.

7. 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%.

8. Haphazardly select ten employees and one pay period and inspect supporting documentation during the fiscal year to:
   - 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 Office.

   For Salaried Employees:
   - 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:
   - Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

   For Special Contract Employees (G/L Account 5010880000):
   - 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 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. Haphazardly select ten 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.
Payroll (Continued)

Finding

Documentation was not adequate to confirm the salary paid for one of the employee payments inspected.

Management’s Response

The Office failed to follow established procedures according to Office policies. The support documentation was either lost or misplaced. In the future, the Office will only process personnel actions that are supported with proper documentation.

Journal Entries and Transfers

11. Haphazardly select six journal entries and four 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

12. 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.

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
  
  Determine if responses and reported amounts are reasonable/accurate based on an 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 responses and reported amounts are reasonable/accurate based on an inspection of the SCEIS Yearend Reporting – Inventory report and/or Office prepared records.
Reporting Packages (Continued)

- **Capital Assets Reporting Package**
  
  Determine if responses and reported amounts are reasonable/accurate based on an inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Office prepared records.

- **Accounts Payable Reporting Package**
  
  Determine if reported amounts are accurate 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. Additionally, haphazardly select ten payables to determine if reported amounts were properly identified, classified, and reported on the Accounts Payable Summary Form.

- **Operating Leases Reporting Package**
  
  Confirm that the Office submitted leases to the CG’s Office in accordance with the reporting package instructions. Additionally, agree applicable effective lease dates and future minimum payments on the Future Minimum Payment Schedule to the prior year Schedule. Inspect any changes to determine if the effective lease dates and future minimum payments were properly calculated and reported on the Future Minimum Payment Schedule. Lastly, determine if responses and reported amounts on the Total Cost of Property Leased to Others Under Operating Leases and Future Rental Payments to be Received schedules are reasonable/accurate based on an inspection of supporting documentation provided by the Office.

- **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.

**Findings**

**Master Reporting Checklist** – We were unable to confirm that required information regarding any polluted or contaminated site was submitted to the CG for question number 58 of the Master Reporting Checklist.

**Cash and Investments Reporting Package** – Similar to the finding reported in the prior year, some documentation discrepancies were encountered, including an armory account balance inadvertently excluded from deposits with banks reporting form.

**Grants and Contribution Revenue Reporting Package** – Grant receivable balances of approximately $14 million, and deferred revenue balances of approximately $3 million, were not transferred from the grants activity forms to the grants receivable and deferred revenue summary form of the reporting package.

**Other Receivables Reporting Package** – Unreported receivables totaling approximately $94 thousand were identified in the accounting system.

**Inventory Reporting Package** – Similar to the finding in the prior year, some inventory count sheets were not dated or were dated after year end.

**Capital Assets Reporting Package** – Similar to the finding reported in the prior year, discrepancies were encountered, including a lack of adequate documentation to confirm the amounts reported for construction commitments and retainage.
Reporting Packages (Continued)

Accounts Payable Reporting Package – Inspection of reported payables, and the accounting records, revealed approximately $575 thousand of intergovernmental payables misclassified as vendor payables and an understatement of payables totaling approximately $49 thousand.

Operating Leases Reporting Package – Similar to the finding reported in the prior year, future minimum lease payment calculation discrepancies were encountered. In addition, we were not able to confirm that leases were submitted to the CG in accordance with the reporting package instructions.

Subsequent Events Questionnaire – Similar to the finding reported in the prior year, discrepancies were identified, including the failure to report updates for subsequent payables and compensated absences.

Management’s Response

In order to prevent missing items, both the preparer and the reviewer will communicate about the preparation of the Reporting packages to help ensure items are not overlooked, the timing of supporting documentation is correct, and all parties are fully trained. The discrepancies identified above will also be used as a guideline to prevent errors previously made and to use the correct information.

Office Bank and 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 four 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.

17. Haphazardly select and inspect five 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 and/or services were procured in accordance with applicable laws and regulations.

Finding

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

Management’s Response

Notifications will be sent to all individuals for bank reconciliations to ensure all year-end reconciliations are submitted. The Office will review quarterly the Armory bank reconciliations to ensure all are submitted, and all expenses and revenues are posted.
Assets and Personal Property

18. Haphazardly select five 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.

19. Haphazardly select three 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 Office’s books/general ledger in accordance with the CG’s Reporting Policies and Procedures Manual.

20. Confirm that an inventory of Office property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Finding

Similar to the finding reported in the prior year, one of the five asset acquisitions was capitalized at a value below the State’s capitalization threshold.

Management’s Response

We will review the capitalization threshold keeping in mind that asset acquisitions are not capitalized below the threshold.

TAG Employee Group, Inc.

21. Inspect TAG Employee Group, Inc. accounting policies and procedures to determine impact on our agreed upon procedures.

22. Haphazardly select and inspect three TAG Employee Group, Inc. receipts and three disbursements to determine if they comply with TAG Employee Group accounting policies and/or State and Office policy.

Finding

We were unable to obtain adequate documentation for some of the transactions inspected. For receipt transactions, we were unable to confirm receipt dates and one deposit. For two of the disbursement transactions, we were not able to confirm proper approvals as outlined in the TAG Employee Group, Inc. expenditure guidelines.

Management’s Response

Due to COVID-19, a face to face interaction with the auditor was not possible which would have aided in the ability to produce the required documentation for receipts requested. The Office is not directly involved with the TAG Employee Group documentation requested and received during the completion of the procedures. However, better procedures need to be in place for documenting approvals. Due to the volunteer nature of the group, and turnover in the year inspected, the officers did their best to document and get the proper approvals. Most approvals are approved for large purchases during meetings in which the secretary takes notes and retains them. That did not happen appropriately during the period of inspection. The guidelines will be updated once the group can resume activities.

Provisos

23. Confirm that the Office submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first in accordance with Proviso 117.13 of the Appropriation Act.

25. Confirm compliance with the following Office-specific state provisos: 100.7, 100.16, 100.19, and 100.21 by inquiring with management and observing supporting documentation, where applicable.

26. Inspect supporting documentation to confirm compliance with Proviso 118.15 of the Appropriation Act for appropriations applicable to the Office.

Finding

The Bank Account Transparency and Accountability Report was submitted to the State Fiscal Accountability Authority after the October first due date.

Management’s Response

The Office will add the Bank Account Transparency and Accountability Report to the annual Checklist to help meet the submission date requirements.

Status of Prior Findings

27. 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 for prior year findings, except where identified in the Reporting Packages, Office Bank/Composite Reservoir Accounts, and Assets and Personal Property sections above.