

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

SOUTH CAROLINA DEPARTMENT OF REVENUE

For The Year Ended June 30, 2005

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COLUMBIA, SOUTH CAROLINA
June 30, 2005

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State of South Carolina



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May 31, 2006

The Honorable Mark Sanford, Governor
and
Mr. Ray N. Stevens, Director
South Carolina Department of Revenue
Columbia, South Carolina

This report resulting **from** the application of certain agreed-upon procedures to certain accounting records of the South Carolina Department of Revenue for the fiscal year ended June **30**, 2004, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



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**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON
PROCEDURES**

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
South Carolina Department of Revenue
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of South Carolina Department of Revenue (the "*Department*"), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2005, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

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- We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. Non-payroll Disbursements and Expenditures

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the South Carolina Department of Revenue, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. Payroll Disbursements and Expenditures

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate.

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- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures to those of the prior year; compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2005, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we

determined if they were timely performed and properly documented in accordance with State regulations, recalculated
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the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of department personnel and/or observation of department personnel performing their assigned duties, the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2005.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2005, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We inquired of the Department's management regarding federal assistance expended by the Department for the year ended June 30, 2005. According to the management, the Department did not receive or expend any federal funds for the year ending June 30, 2005.

10. **Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the Independent Accountants' Report on applying Agreed Upon Procedures for the South Carolina Department of Revenue resulting from the engagement for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

We found no exceptions as a result of the procedures.

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State Auditor
South Carolina Department of Revenue

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, South Carolina Office of the State Auditor and management of the South Carolina Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, PA
May 30, 2006

The Hobbs Group, P.A.

ACCOUNTANTS' COMMENTS

SECTION A – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on of the finding reported in the Accountants' Comments section of the Independent Accountants' Report on applying Agreed-Upon Procedures on the South Carolina Department of Revenue for the fiscal year ended June 30, 2004 and dated May 16, 2005. We determined that the Department has taken adequate corrective action on the finding. In response to our inquiries, we were told that the Department has developed and implemented procedures to correct the weakness reported in the prior year. However, because the procedures were implemented after June 30, 2005, we did not perform tests to determine if the new procedures are operating effectively. The prior finding and status of the finding is listed below:

Prior Finding - Review of Reconciliations

In the prior year two of the six tax revenue reconciliations were not prepared on a timely basis as defined by the Comptroller General's Office in the STARS Agency Users Manual.

Status: Upon review during the current year engagement the reconciliations were being prepared on a timely basis.