

**SOUTH CAROLINA  
DEPARTMENT OF INSURANCE  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# *State of South Carolina*



## *Office of the State Auditor*

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 9, 2007

The Honorable Mark Sanford, Governor  
and  
Mr. Scott Richardson, Director  
South Carolina Department of Insurance  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Insurance (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2006, 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 in accordance with the agency's policies and procedures and State regulations.
- 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.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, and restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$449,800 – general fund, \$32,800 – earmarked fund, and \$24,500 – restricted fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.
- We performed procedures to ensure revenue was properly distributed from the revenue clearing account to the various funds to ensure proper allocation.

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 in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Department, 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.
- 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 at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$38,200 – general fund, \$36,700 – earmarked fund, and \$23,500 – restricted fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Support for Procurement Card Purchases in the Accountant's Comments section of this report.

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 processed in accordance with the agency's policies and procedures and State regulations.
- 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 the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- 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 at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$38,200 – general fund, \$36,700 – earmarked fund, and \$23,500 – restricted fund) and  $\pm 10$  percent.
- We 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. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries and all interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Maintenance of Records in the Accountant's Comments section of this report.

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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The 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, 2006, 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 accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated 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 Honorable Mark Sanford, Governor  
and  
Mr. Scott Richardson, Director  
South Carolina Department of Insurance  
August 9, 2007

We judgmentally selected the fiscal year-end reconciliation and randomly selected one month's reconciliations for testing. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of these procedures is presented in Fidelity Bond Approval in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

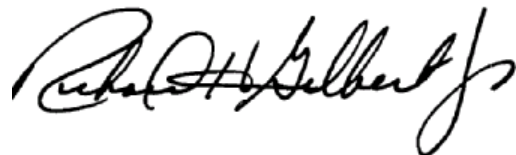
We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2004, to determine if the Agency had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2005. We determined the Department has taken adequate corrective action on the finding.

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 elements, 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 and of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**

## **SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.



## **FIDELITY BOND APPROVAL**

The Department did not obtain approval from the Attorney General's Office and the State Auditor's Office for the fidelity bond it purchased for its former Director in July 2005. The former Director has since resigned and was replaced by the Department's current Director in February 2007.

Section 1-11-180 of the 1976 South Carolina Code of Laws states, in part, the following: "In addition to the powers granted the Budget and Control Board under this chapter or any other provision of law, the board may:...(4) approve blanket bonds for a state agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General." (The Budget and Control Board has delegated this responsibility to the State Auditor.)

We recommend the Department obtain the required approvals of the Attorney General and the State Auditor for the fidelity bond it purchases for its current Director.

## **SUPPORT FOR PROCUREMENT CARD PURCHASES**

During our Test of Disbursements, we noted one instance where a disbursement voucher package for a procurement card purchase did not contain adequate support documentation. We were therefore unable to verify that the card purchases were proper and in accordance with state procurement policies.

According to the State Materials Management Office Purchasing Card Program Policies and Procedures manual, agencies must review and maintain cardholder receipts and statements to ensure cardholder statements are accurate. Further, agencies must retain all receipts and vouchers for audit by internal and external auditors. Receipts for purchases are to be retained for seven years. In addition, the Department's policy requires that all purchase card receipts be attached to the disbursement voucher.

We recommend that the Department develop and implement procedures to monitor its compliance with state procurement policies and Department policies.

## **SECTION B - OTHER WEAKNESSES**

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

## **MAINTENANCE OF RECORDS**

The Department was unable to locate nine journal entries and two disbursement vouchers we requested for testing. According to Department personnel, the documents were possibly misplaced after the Department moved in April 2007.

Sound internal controls require documentation be obtained, retained, and filed in an orderly manner to support all recorded transactions.

We recommend the Department strengthen its procedures to ensure proper safeguarding and accountability of documents.

## **PAYROLL**

### **Test of Terminations**

During our test of individuals who terminated employment during fiscal year 2006, we noted the following:

1. We could not determine the correct termination date for one employee. Our review of documents maintained in the employee's personnel file documented that the employee left employment on August 17, 2005; however according to the termination listing provided by Department personnel, the employee left the agency on September 1, 2005.
2. One employee terminated employment with the Department on August 17, 2005; however documents indicated that the employee continued to work until August 31, 2005.
3. The Department miscalculated final pay for one employee and underpaid the employee \$11. The employee worked four days out of the twelve day pay period. When calculating this partial pay, Department personnel used the employee's hourly rate instead of using the percentage of the days worked to calculate the employee's semi-monthly salary.

A well-designed internal control system includes controls to ensure the accuracy and completeness of information; procedures to ensure that calculations are supported by source documentation; and an independent review of calculations and verification of support documentation used in those calculations.

We recommend that the Department develop and implement procedures to ensure that payments to employees are correctly calculated. This should require an independent review of payroll calculations to ensure the calculations are mathematically accurate and agree to source documentation. The Department should also develop and implement procedures to ensure that all personnel and payroll files are maintained properly and records included in the files are complete and accurate.

### **New Hire Listing**

We requested a list of all employees who started employment with the Department during fiscal year 2006. During our test of employees who started employment, we noted temporary employees were not included on the listing. According to Department personnel, they are unable to generate a report that includes temporary employees.

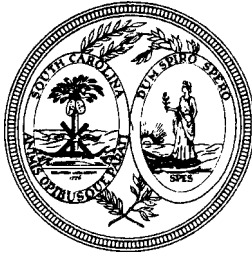
An effective system of internal controls includes procedures to ensure information is maintained accurately.

We recommend that the Department develop and implement procedures to ensure that information regarding employees is maintained accurately. We also recommend Department personnel review reports generated for audit of other purposes prior to delivering them to the requesting authority to ensure that information contained therein is complete and accurate.

## **SECTION C - STATUS OF PRIOR FINDING**

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Department of Insurance for the fiscal year ended June 30, 2004, and dated May 13, 2005. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2005. We determined that the Department has taken adequate corrective action on the finding regarding Termination Pay.

## **MANAGEMENT'S RESPONSE**



# South Carolina Department of Insurance

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Governor

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October 1, 2007

Richard H. Gilbert, CPA  
Deputy State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, S.C. 29201

Dear Mr. Gilbert:

The South Carolina Department of Insurance has reviewed the draft copy of the FY 2006 Agreed-Upon Procedures engagement and wishes to offer the following responses to the findings noted:

## **Fidelity Bond Approval**

The Department concurs that proper approvals were not obtained for the previous Director's Fidelity Bond. The Fidelity Bond for the new Director has been approved in accordance with State law.

## **Support For Procurement Card Purchases**

The Department agrees that proper documentation was not attached to the tested disbursement voucher package in accordance with MMO Policies. Since this finding was only noted once in the disbursement sample, the Department is confident this was an isolated incident and not indicative of weak procedures.

## **Maintenance of Records**

The Department conducted an exhaustive search for the missing records but our efforts were unsuccessful. The entries can be viewed on-line in the Accounting system but supporting documentation could not be located. The Department moved this past April so the unpacking process continues. The Finance records were in various areas at the previous location but our move has allowed consolidation of these same records into one area. The Department agrees to be more diligent in the custody of records.

## **Payroll**

The Department wishes to offer the following:

1 & 2: The Department concurs with the finding that the termination date was not the same in Payroll and Human Resources for the employees selected for testing. The Department has experienced extensive employee turnover in its Human Resources department during the last few years, making it difficult to maintain continuity and compliance with Human Resource procedures.

3: The Department calculated the final pay of the tested employee in accordance with guidance received from the payroll section of the Comptroller General's Office.

## **New Hire Listing**

The Department obtained a report of new hires from the State Office of Human Resources. It was the Department's understanding that the report contained all new hires but it was revealed later that temporary employees were not included on this list. State Human Resource personnel were not aware of the list's inadequacies prior to disclosure by Department personnel. The Department has purchased a new employee database system that can produce a comprehensive new hire list for all subsequent fiscal years.



The Department of Insurance authorizes release of the final report to include our responses noted above. Should you have any questions, please feel free to contact me anytime at 737-6343.

Sincerely,

A handwritten signature in black ink, appearing to read "Benjamin I Duncan, II", with a long horizontal flourish extending to the right.

Benjamin I Duncan, II  
Deputy Director for Administration

BD/jde

4 copies of this document were published at an estimated printing cost of \$1.54 each, and a total printing cost of \$6.18. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.