

**SOUTH CAROLINA DEPARTMENT
OF MOTOR VEHICLES**

BLYTHEWOOD, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2005

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 7, 2006

The Honorable Mark Sanford, Governor
and
Ms. Marcia Adams, Executive Director
South Carolina Department of Motor Vehicles
Blythewood, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Motor Vehicles (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 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.
- 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.

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South Carolina Department of Motor Vehicles
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The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Proviso 72.74. in the Accountant's Comments section of this report.

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 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; 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.
- 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 recorded 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.

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

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

6. **Reconciliations**

- We obtained selected monthly reconciliations prepared by the Department for the year ended June 30, 2005, and inspected 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 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 agency personnel and/or observation of agency 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.

The Honorable Mark Sanford, Governor
and
Ms. Marcia Adams, Executive Director
South Carolina Department of Motor Vehicles
September 7, 2006

Our findings as a result of these procedures are presented in Personnel and Payroll and Proviso 72.74. 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, 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 obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2005, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; 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.

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 State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Personnel and Payroll in the Accountant's Comments section of this report.

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 and of the management of the South Carolina Department of Motor Vehicles 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 - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

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

PERSONNEL AND PAYROLL

We tested the Department's compliance with its internal control procedures and laws and regulations affecting its personnel and payroll practices and noted the following deficiencies:

1. One employee tested had received a salary increase of 3.67% in excess of the Department's policy for pay increases. The Department's Headquarters Salary Equity Plan – Phase I states that no employee will receive more than a 15% increase unless the increase brings the employee to the minimum of the class. Department personnel confirmed to us that the employee should not have received more than 15%. We reviewed the spreadsheet used to provide pay raises under this policy and found that other employees were also given increases above 15% in violation of the policy.
2. One employee in our test of terminations was paid for unused annual leave at an incorrect pay rate because the hourly rate used did not include the employee's salary increase. This resulted in an underpayment to the employee of \$254.
3. Another employee in our test of terminations received a semi-monthly paycheck while in leave without pay (LWOP) status resulting in an overpayment to the employee of \$1,434. The employee's final pay calculations were not independently reviewed to verify the mathematical accuracy of the calculation and traced to supporting documentation.

4. A third employee in our test of terminations remained on the payroll eight months after termination. The employee, who terminated on October 15, 2004, was paid four additional semi-monthly paychecks. The Department subsequently discovered the error and reduced the employee's lump sum annual leave pay for the additional semi-monthly salary payments on June 16, 2005. The reason for the delay in processing the employee's termination pay (including annual leave pay) was because the Department's Human Resource staff did not provide the payroll staff with a termination request in a timely manner.
5. Three employees in our test of new hires were paid for a holiday prior to beginning work. The Department's policy is to start employees on the first day of a pay period. Since the first day of the pay period was a holiday, the employees actually began work on the second day but were paid for the entire pay period including the holiday. This resulted in overpayments to the employees of \$267.
6. We tested the annual leave balance of 25 employees. One employee's annual leave balance was overstated by one month's leave accrual. Department personnel told us that its computerized leave system incorrectly credited the employee with leave for the month prior to the employee's hire date.

Sound business practice requires management to establish and maintain effective internal controls to ensure that all salary and wage calculations and payments are accurate and that employees are paid in a timely manner. In addition, Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving or a State employee from paying monies not due to employees. Further, State Human Resources Regulations section 19-709.02 states that employees who are in pay status one-half or more but not all of the workdays of the month shall earn annual leave for the full month. If they are in pay status for less than one-half the workdays, they shall earn no annual leave.

We recommend that the Department strengthen controls to ensure compliance with its policies as well as state laws and regulations. Such controls should ensure that salary and wage calculations are independently verified prior to payment, termination requests are provided to payroll staff in a timely manner, leave systems properly credit the appropriate amount of leave, and employee salary information is properly updated in the system.

PROVISO 72.74.

General Proviso 72.74. of the fiscal year 2005 Appropriations Act states that the Department of Motor Vehicles shall issue a series of commemorative motor vehicle license plates for the purposes of the “Non-game Wildlife and Natural Areas Fund”. The special fee is thirty dollars and this amount must be placed in the fund. This fee is in addition to the regular motor vehicle registration fee.

We inquired as to the Department’s compliance with proviso 72.74. and were told by Department personnel that this proviso had been overlooked. The Department has been charging a fee of \$24 for the commemorative plates (in addition to the regular motor vehicle fee) thus undercharging \$6 for each license plate. The Department determined that 1,777 plates were issued in fiscal year 2005. Therefore, this condition resulted in lost revenues to the State as well as an underfunding of the Non-game Wildlife and Natural Areas Fund of \$10,662.

We recommend that the Department review and modify, as appropriate, control procedures to ensure that it is aware of all changes in applicable laws and regulations and that Department procedures and systems affected by the changes be modified accordingly.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2005, and dated October 13, 2005. We determined that the Department has taken adequate corrective action on each of the findings except for Payroll Terminations which we have repeated in Section A in the Personnel and Payroll comment.

MANAGEMENT'S RESPONSE

Mark Sanford
Governor

Marcia S. Adams
Director

State of South Carolina

Department of Motor Vehicles

November 29, 2006

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Mr. Gilbert:

I would like to offer the following comments in response to the matters discussed in the Accountant's Comments section of the draft report resulting from the performance of agreed-upon procedures to the accounting records of the South Carolina Department of Motor Vehicles for the fiscal year ended June 30, 2005.

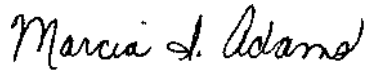
Personnel and Payroll: The DMV makes every effort to adhere to state laws and regulations and to maintain proper documentation of all salary and wage calculations and payments. The DMV Payroll Office is actively pursuing correcting the errors of overpayments that have occurred in the past by either contacting the individual directly or working with the Department of Revenue on their Debt Set-Off Program. All known underpayments have been verified and corrected. Additionally, the DMV Payroll Office and the DMV Office of Human Resources continues to work together to improve processes so that additional errors are minimal.

Proviso 72.74: The DMV has updated the plate fee within the Phoenix system so that all future revenue distributions from the sale of this special plate will be correct. However, DMV feels that the amount of lost revenues noted in the Auditor's report is overstated. DMV, by law (Section 56-3-8100) has the authority to deduct the cost of making the special plate from the special plate fee. As a result, the Department of Natural Resources (DNR) should have received \$21.53 for each new registration and \$26.02 for each renewal. Therefore, DMV actually submitted **overpayments** to the DNR in the amount of \$1,263.41 instead of the shortage noted in the Auditor's report.

I would like to thank your staff for their cooperation and assistance provided to the Department during this engagement. As I stated earlier, with the guidance provided by your staff and the commitment of DMV's administrative staff, I am confident that DMV will continue to improve its operations and strive to ultimately reduce, if not eliminate, issues such as those identified during this engagement.

If you should have any questions or need to discuss any of the information provided in this response, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Marcia S. Adams". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Marcia S. Adams
Executive Director

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