

**SOUTH CAROLINA DEPARTMENT
OF MOTOR VEHICLES**

BLYTHEWOOD, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 16, 2009

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, 2008, 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, restricted, and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$100,000 – general fund, \$233,400 – earmarked fund, \$35,800 – restricted fund, and \$8,900 – federal 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.

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 earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$229,800 – earmarked fund, \$31,800 – restricted fund, and \$10,700 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Codes 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 earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$229,800 – earmarked fund, \$31,800 – restricted fund, and \$10,700 – federal fund) and ± 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 five percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. Journal Entries and Operating Transfers

- We inspected selected recorded journal entries and operating 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 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 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, 2008, 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 reconciliations selected were chosen randomly. 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.

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, 2008, 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.

Our findings as a result of these procedures are presented in Account Classification and GAAP Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008, 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 agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

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 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

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.

OBJECT CODES

We noted that the Department incorrectly assigned object codes to several expenditure transactions. During our analytical review of expenditures, we determined that the Department charged several vouchers relating to equipment rental to object code 0418, Insurance - State. The Department should have charged the expenditures to object code 0416, Rental – Other. In addition, during our review of the capital assets closing package we determined that the Department recorded computer software expenditures totaling \$49,629 to object code 0604, Data Processing Services (Capitalized). The expenditures should have been recorded to object code 0720 – Intangible Assets.

We recommend the Department ensure that personnel responsible for processing accounting transactions are familiar with object code definitions. We also recommend that persons responsible for approving vouchers review voucher object codes to ensure proper assignment.

TERMINATION PAY

During our tests of employee terminations, we noted two instances in which employees were overpaid because they were not timely removed from the payroll system. One employee terminated employment on October 19, 2007 and should have received only a partial pay check on November 16, 2007. However the Department paid the employee his full semi-monthly salary on November 16 and November 30 because the payroll staff did not receive notification of the employee's termination from the human resource department until December 12, 2007. In the second instance, an employee who terminated on July 17, 2007 was paid his entire salary on August 16 and August 31. Payroll staff did not receive the employee's termination notice until August 31, 2007. The Department, upon discovering the errors, contacted the former employees and recouped the overpayments.

South Carolina Code of Laws Section 41-10-50 states “When an employer separates an employee from the payroll for any reason, the employer shall pay all wages due to the employee within forty-eight hours of the time of separation or the next regular payday which may not exceed thirty days”. Section 8-11-30 of the South Carolina Code of Laws states, in part, “It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due...” In addition, effective internal controls require source documentation to be processed timely to ensure the proper accounting of termination pay.

We recommend the Department strengthen its control procedures by ensuring that its human resource staff provide timely notification of employee terminations to its payroll staff in order to ensure that employees are removed from the payroll in a timely manner.

GAAP CLOSING PACKAGES

Introduction

The Office of the Comptroller General (OCG) obtains certain generally accepted accounting principles (GAAP) data for the State’s financial statements from agency prepared closing packages because the State’s accounting system (STARS) is on a budgetary basis. To accurately report the Department’s and the State’s assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, section 1.7 of the Comptroller General’s GAAP Closing Procedures Manual (GAAP Manual) states, “Each agency’s executive director and finance director are responsible for submitting ... closing package forms ... that are: •Accurate and complete in accordance with instructions. •Complete. •Timely.” This section also requires an effective, independent supervisory review of each completed closing package and the underlying working papers and accounting records including the methodology used in compiling closing package data and completion of the

reviewer checklist and lists the minimum review steps to be performed. In addition, Section 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form. The following outlines the errors noted on certain 2008 closing packages:

Compensated Absences

The State's policy is to record a compensated absence liability at June 30 based on the following criteria: a) accumulated unused annual leave earned by employees; b) accumulated unused holiday compensatory time; and c) accumulated unused overtime compensatory time. Our review of the compensated absences closing package disclosed that the Department did not include its overtime compensatory time liability of \$140,875.

We recommend that the Department strengthen its procedures to ensure that the closing package is prepared in accordance with GAAP Manual instructions and include all annual leave, holiday compensatory time, and accumulated unused overtime compensatory time.

Taxes Receivable

The Department was unable to provide adequate supporting documentation for \$18,554 of the \$239,079 gas and motor vehicle tax gross receivables reported in its closing package. GAAP Manual section 3.2 states "All working papers may be subject to audit. The agency should keep copies of the completed summary form. In addition, the agency should keep working papers to support each figure on those forms."

We recommend that the Department strengthen its procedures to ensure that the Department keeps working papers to support each figure on its closing package.

Cash and Investments

The GAAP Manual directs that agencies report petty cash balances authorized by the State Auditor. During our review of the Cash and Investments Closing Package we noted the Department did not report the authorized amounts for six petty cash accounts. Five of the six accounts reflected outdated authorized amounts because the preparer of the closing package was unaware that the Department had requested and received revised petty cash authorizations from the State Auditor's Office. The sixth balance reported was based upon the Department's current request to increase the authorized balance. However, as of June 30, 2008, the Department had not received State Auditor approval.

We recommend that the Department strengthen its procedures to ensure that the closing package reports authorized amounts for petty cash accounts as of June 30. We also recommend that the preparer and reviewer be aware of revisions to authorized amounts approved by the State Auditor's Office.

Operating Leases

The GAAP Manual section 3.19 requires agencies to complete the operating leases closing package if the total non-cancelable operating lease obligation at June 30 for all future years is more than \$200,000. We reviewed the Department's eleven non-cancelable operating leases and determined that three were improperly excluded from the closing package. As a result the Department did not report future minimum lease payments totaling \$820,637.

We recommend that the Department establish procedures to ensure the population of reportable leases is complete.

Capital Assets

During our tests of the capital assets closing package, we noted that the end-of-year balance for land and non-depreciable improvements as reported on the closing package did not agree with the Department's accounting records (ACS445-01 Report). We determined that the difference was due to a misclassification of roofing repairs and renovation costs on the closing package.

Section 3.9 of the GAAP Manual states "Building improvements are subsequent additions to, or renovations to, existing buildings that meet any one of the following three criteria: The improvement adds square footage to the existing building; the improvement is a major renovation that prepares an existing building for a new use; or, the improvement extends the useful life of the existing building. Ordinary repairs and maintenance, such as a roof replacement, are not building improvements, even though they could cost a significant amount. When a building is improved, the improvement should be capitalized as a separate asset from the original building."

We recommend that the preparer and reviewer be knowledgeable of GAAP Manual instructions to ensure the proper reporting of capital assets.

MANAGEMENT'S RESPONSE



State of South Carolina
Department of Motor Vehicles

June 24, 2009

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, 2008.

Object Codes: The DMV makes every effort to ensure that all expenditures are coded to the appropriate object codes. Expenditure object codes are reviewed internally at the beginning of the process by DMV Procurement staff and again at the end of the process by Accounts Payable. Once leaving DMV, the codes are also audited by the Comptroller General's Office. With DMV processing approximately 65,000 vouchers a year, there will be times that errors may occur; however, we will continue to make every effort to ensure that mistakes are minimal.

Termination Pay: 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 actively pursues correcting 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. The two overpayments noted in this audit were recouped from the individuals as soon as the Payroll staff discovered the errors. 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.

GAAP Closing Packages: DMV Management staff always provides an independent supervisory review of the completed closing packages and the supporting backup documentation including reviewing the methodology used in compiling the closing package data. In the future, DMV Accounting Management will continue to ensure that all closing package instructions are carefully reviewed and implemented so that the

closing packages will be accurately stated and that the information is prepared in accordance with GAAP Manual instructions.

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, reading "Marcia S. Adams". The signature is written in a cursive, flowing style.

Marcia S. Adams
Executive Director

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