

State of South Carolina



Office of the State Auditor

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November 2, 2010

Mr. Ray N. Stevens, Director
South Carolina Department of Revenue
301 Gervais Street
Columbia, South Carolina 29201

Dear Mr. Stevens:

We are enclosing a preliminary draft copy of the report resulting from our performance of agreed-upon procedures to the accounting records of the South Carolina Department of Revenue for the fiscal year ended June 30, 2009. As soon as you have reviewed the draft, but not later than November 17, 2010, please write to us indicating your review has been completed and authorizing release of the report. If you wish, we would be glad to meet with you in a formal exit conference to discuss this report. Please telephone George Gentry, CPA, Audit Manager, at 253-4160 if you have any questions about this letter or would like to schedule a conference.

To enable us to expeditiously complete and distribute your report, you must provide us with a report release authorization.

Also, forward to us with your release authorization any written response or comments regarding the matters discussed in the Accountant's Comments which you wish to have included in the final report. In addition provide us an electronic copy of your written response so it can be included with our report on the State Auditor's internet homepage. If we do not receive your release authorization by the date stated in paragraph one, we will release the report at that time with our comment in the Management's Response section of the Accountant's Comments that you elected not to respond.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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

RHGjr/sag

Enclosure

**SOUTH CAROLINA
DEPARTMENT OF REVENUE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2009

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 28, 2010

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

We have performed the procedures described below, which were agreed to by the management of the 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, 2009, 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 (\$17,641,500 – general fund, \$169,700 – earmarked fund, and \$308,500 – restricted fund) and ± 10 percent.

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- 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. Our finding as a result of these procedures is presented in Receipt Date 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 in accordance with the Department'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 (\$194,100 – general fund, \$192,700 – earmarked fund, and \$4,500 – restricted fund) and ± 10 percent.

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 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 (\$194,100 – general fund, \$192,700 – earmarked fund, and \$4,500 – restricted 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 ± 5 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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, 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 Department's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Transfer of Hospital Taxes 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 Department'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, 2009, 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 Departments 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 Department'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, 2009, 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 Compensated Absences and Petty Cash Authorization 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 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

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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.

COMPENSATED ABSENCES

Department personnel used the wrong leave balance to calculate an employee's compensated absences liability for one of the ten balances tested. The employee did not submit a leave request timely. As a result the employee's leave was not posted to the leave liability report which was used to generate the compensated absences closing package.

Section 3.17 of the Comptroller General's Office GAAP Closing Procedures Manual states, "The accumulated unused annual leave earned by employees at June 30 is the actual annual leave balance in the agency's records for each employee."

We recommend that the Department review its policy and procedures designed to ensure that all leave taken before the end of June is posted to the leave system before the calculation of the year-end compensated absences liability.

PETTY CASH AUTHORIZATION

Petty cash authorization documents did not support the authorized balance reported on the cash and investments closing package. The authorized balance reported for change funds at one taxpayer service center exceeded the petty cash authorization on file at the Office of the State Auditor by \$100. The Department was unable to provide documentation to support the increase in the authorized balance.

Section 4.2.20.1 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual requires State Auditor approval for petty cash authorized balances. Section 3.1 of the Comptroller General's Office GAAP Closing Procedures Manual includes authorizing correspondence as supporting working papers the agency should keep to support reported balances.

We recommend the Department take steps to ensure that increases and/or decreases in petty cash funds are authorized by the Office of the State Auditor in accordance with Section 4.2.20.1.

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.

RECEIPT DATE

Because the Department does not document the date of receipt for operating revenue receipt transactions, we were unable to determine if the receipt was deposited timely as required by Section 89.1 of the 2008-09 Appropriation Act. To test compliance, we used alternative documentation, such as the check date. However, for one of the twenty-five transactions tested, we could not determine if the receipt was in compliance because the supporting documentation did not include a date reference.

We recommend that the Department develop and implement a policy requiring accounting personnel to document the receipt date for operating receipts.

TRANSFER OF HOSPITAL TAXES

The Department of Revenue collects hospital taxes and transfers them to the Department of Health and Human Services in accordance with State law. The Department of Health and Human Services provides details of all fiscal year hospital tax receipts to the Comptroller General's Office. The Comptroller General's Office calculates an associated deferred revenue and receivable for the statewide financial statements using the details provided.

We tested a July 2009 hospital tax transfer which represented hospital tax revenue collected in fiscal year 2007-08. The Department of Revenue inadvertently recorded this transfer as a fiscal year 2008-09 transaction. As a result the Department of Health and Human Services did not report the transaction to the Comptroller General's Office and the fiscal year 2007-08 hospital tax revenue was misstated.

We recommend the Department of Revenue review its procedures for recording hospital taxes revenue to ensure that the revenue and transfers are recorded in the proper fiscal year.

MANAGEMENT'S RESPONSE

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