

State of South Carolina



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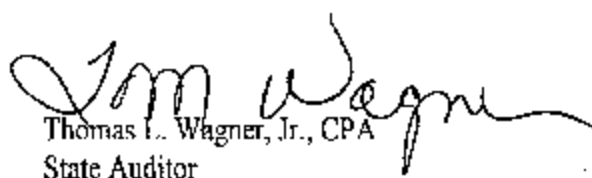
June 12, 2000

The Honorable James H. Hodges, Governor  
and  
Members  
South Carolina State Agency of Vocational Rehabilitation  
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina State Agency of Vocational Rehabilitation for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, PA, 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,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

**SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION  
STATE OF SOUTH CAROLINA**

**COLUMBIA, SOUTH CAROLINA**

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

**JUNE 30, 1999**

**SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION  
STATE OF SOUTH CAROLINA**

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

We have performed the procedures described below, which were agreed to by the management of both the South Carolina Office of the State Auditor and the South Carolina State Agency of Vocational Rehabilitation (the Agency), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 with those of the prior year and tested the reasonableness of collected and recorded amounts. The individual items selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Comment 1 in Section A in the Accountant's Comments section of this report.
2. We tested 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 Agency; and, were paid in conformity with State laws and regulations, and if internal controls over the tested disbursement transactions were adequate. We also tested 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 with those of the prior year to determine the reasonableness of amounts paid and recorded. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested 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 also tested 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 performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.

4. We tested 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. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Agency 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 accounting controls over the tested transactions were adequate. The items selected for testing were chosen randomly. We found no exceptions as a result of these procedures.
6. We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 1999, and tested selected reconciliations of balances in the Agency's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Agency'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 Agency's accounting records and/or STARS. The reconciliations selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Comments 4 and 6 in Sections A and B in the Accountant's Comments section of this report.
7. We tested the Agency'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 1999. Our finding as a result of these procedures is presented in Comment 3 in Section A in the Accountant's Comments of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the report on applying agreed-upon procedures to the financial records and internal control of the Agency resulting from our engagement for the fiscal year ended June 30, 1998, dated June 10, 1999, to determine if adequate corrective action has been taken. The deficiencies noted were corrected except as noted in Section C in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Agency and submitted to the State Comptroller General. We reviewed 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. Our findings as a result of these procedures are presented in Comments 2 and 7 in Sections A and B in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Agency and submitted to the State Auditor. We reviewed 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. Our finding as a result of these procedures is presented in Comments 3 and 8 in Sections A and B in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Agency's financial statements or any part thereof, 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 the members and management of the Agency and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Roger A. Laban, PA*

Columbia, South Carolina  
May 24, 2003

**SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION  
COLUMBIA, SOUTH CAROLINA**

**ACCOUNTANT'S COMMENTS  
JUNE 30, 1999**

**SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

The procedures agreed to by the Office of the State Auditor and 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 Agency is responsible for establishing and maintaining internal control. 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.

**1. RECEIPTS NOT DEPOSITED TIMELY**

The Agency is not timely depositing all receipts. Three of the twenty-five receipts tested were not deposited timely as required by State law. Section 72.1 of the 1999 Appropriation Act requires all receipts to be deposited at least once each week. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

We recommend that all receipts be deposited in a timely manner as required.

**2. ERROR IN FIXED ASSETS CLOSING PACKAGE**

The Agency changed its capitalization policy in 1999 and included approximately \$2,080,000 of equipment deletions in the retirements column instead of the net corrections to prior years column on the closing package. Section 3.8 of the GAAP Closing Procedures Manual states that if there are any changes in accounting policy, including changes in capitalization limits, the amount should be entered in the net corrections to prior year balances column.

We recommend that additional care be taken to ensure that all items are correctly reported on the closing packages.

**3. FEDERAL FUNDS NOT REQUESTED TIMELY**

The closing package for Grant/Entitlement Receivables and the Schedule of Federal Financial Assistance disclosed that the Agency was due approximately \$5,200,000 in federal receivables. The balance as of June 30, 1998 was approximately \$1,440,000. Item B in Section 3.2.3.1 of the Statewide Accounting and Reporting System Manual describes the Federal Cash Management Improvement Act of 1990 and the intent to minimize the payments of interest between the federal government and the states. The State's plan is designed to accomplish that. The State cash management plan requires that the Agency request funds twice weekly prior to the processing of the vouchers. We determined that the Agency was not requesting funds according to this schedule and was drawing down less funds monthly than their actual monthly expenditures.

We recommend that the Agency timely draw down funds as required to ensure that funds are on hand as federal expenditures are processed.

#### **4. RECONCILIATIONS NOT PERFORMED TIMELY**

The Agency reconciliations of balances in its accounting system to the Comptroller General's records for the months of September 1998 to August 1999 were not performed timely. The reconciliations for these months were performed starting in September 1999 and the reconciliation for June 1999 was not completed until April 2000. The June reconciliation with the Comptroller General disclosed 2 subfunds with unreconciled differences with the Comptroller General's balances being approximately \$27,000 greater than the Agency's. Also, the Comptroller General recorded \$389,000 in fiscal year 2000 and the Agency recorded the revenue in fiscal year 1999. The Agency did not correct the posting until February 2000. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Section 2.1.7.20 of the Statewide Accounting and Reporting System Manual requires the Agency to perform reconciliations monthly on a timely basis and to correct errors promptly.

We recommend that the Agency reconcile all accounts and post all transactions in a timely manner.

#### **SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL**

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

#### **5. ACCOUNTING POLICIES AND PROCEDURES MANUAL**

The Agency does not have a complete policies and procedures manual in place over the accounting and finance department. Good accounting controls over an agency of this size would dictate that written policies and procedures are in place for employee training and guidance to ensure that procedures are properly and consistently adhered to and all transactions are properly authorized and recorded. The same finding was cited in the prior year's report on applying agreed-upon procedures.

We recommend that the Agency develop and maintain a policies and procedures manual that covers all financial responsibilities. The manual should be updated as the need arises.

#### **6. WORKSHOP BANK ACCOUNT RECONCILIATION DEFICIENCIES**

Our review of the reconciliation of the bank account for the workshop account disclosed that the reconciled balance was approximately \$6,000 less than that recorded in the Agency's general ledger. Also, the closing package for the account showed a cash balance approximately \$31,000 less than the actual reconciliation. Also, no listing was provided to support the \$223,704 in outstanding checks shown on the reconciliation and there were no initials of the preparer or evidence of a review process of the bank reconciliations. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Good accounting policies require that bank accounts be reconciled to the Agency's general ledger and that documentation be maintained for all items including outstanding checks. Also, good internal controls dictate an independent review of the reconciliation.

We recommend that the Agency maintain a detail listing supporting all reconciling items. In addition, all reconciliations should be initialed and dated by the preparer and independent review should also be performed and documented. The reason for all unreconciled difference should be determined and necessary entries made so that future reconciliations agree to the general ledger. The amounts shown on the closing package should agree to the Agency's general ledger.



## **7. ERROR IN OPERATING LEASE CLOSING PACKAGE**

Our review of the operating lease-closing package disclosed that the future minimum lease payments were misstated on two of the Agency's 62 leases.

Section 1.8 of the GAAP Closing Procedures Manual outlines the Agency's responsibilities for submitting accurate closing packages and the requirement for each form to be independently reviewed by someone other than the preparer.

We recommend that additional care be taken in the compiling of data and recording it on the closing packages.

## **8. SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE DIFFERENCES**

The beginning balance on the Schedule of Federal Financial Assistance prepared by the Agency did not agree with the prior years ending balance by \$3,364. These differences were noted on 6 out of 29 projects. There was no documentation attached supporting the changes.

Generally accepted accounting principles dictate that beginning balances agree to prior year ending balances. Supporting documentation should be developed and retained to explain differences related to errors on the prior year schedule.

We recommend that the Agency document changes in balances between years.

## **SECTION C - 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 report on applying agreed-upon procedures to the financial records and internal controls of the Agency for the fiscal year ended June 30, 1998, dated June 10, 1999. The comments regarding errors in schedules supporting closing packages and employees not paid for hours worked were corrected. The remaining prior year's findings are repeated as denoted on pages 4 – 6.

# **MANAGEMENT'S RESPONSE**

## **Appendix A**

**South Carolina Vocational Rehabilitation Department****Response to Auditor's Comments****1999 State Audit**

During the audit period, the agency has been in the process of converting from a mainframe environment to a client/server environment. This conversion required all financial programs to be rewritten. This resulted in some difficult situations during the year, but the end result should be an improved financial system.

**Section A – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**Receipts not deposited timely

The agency has a clear policy instructing staff to deposit funds received at least weekly. Compliance in the area will be given a priority by emphasizing this regulation to all staff involved with letters and more frequent audits of this area.

Error in Fixed Asset closing package

During this fiscal year the value of equipment inventory was redefined from \$150 to \$350 per item. Those items removed from inventory were done so as a deletion to inventory. We concur that these deletions should have been classified as an adjustment to the prior year balance.

Federal funds not requested timely

We concur with this finding and have instituted the necessary procedures to ensure compliance in this area.

Reconciliations not performed timely

We concur with this finding and with the completion of our computer conversions, we anticipate the necessary programs and controls are in place to address this area.

**SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL**Accounting policies and procedures manual

We concur with this finding. Documentation of policies and procedures has begun with the completion of the new computer system and finance programs.

**SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL**  
**Continued**

Workshop bank account reconciliation deficiencies

Reconciliation is performed on a monthly basis involving over 6,100 checks and an annual amount of \$13.7 million. A computer listing is generated which list all the outstanding checks shown on the reconciliation. We concur that reconciliation deficiencies existed and steps are being taken to ensure compliance in this area.

Error in Operation Lease closing package

We concur with this finding and will institute the necessary controls to ensure compliance in this area.

Schedule of Federal Financial Assistance differences

The finding is that the beginning balances on the Schedule of Federal Financial Assistance (SFFA) for fiscal year 1999 did not agree with the ending balances for fiscal year 1998. Due largely to staff turnover at the close of fiscal year 1998 our reconciliation was not completed by the time the SFFA was due. Thus, some of the ending balances could not be verified at the time and therefore errors existed. When the fiscal year 1999 SFFA was prepared, fiscal year 1998 had been reconciled and ending balances verified. The beginning balances for fiscal year 1999 represent the correct figures.