

State of South Carolina



Office of the State Auditor

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STATE AUDITOR

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July 1, 2005

The Honorable Mark Sanford, Governor  
and  
Members of the Disabilities and Special Needs Commission  
South Carolina Department of Disabilities and Special Needs  
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Disabilities and Special Needs for the fiscal year ended June 30, 2004, was issued by Scott McElveen, L.L.P., 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,

A handwritten signature in black ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

Department of Disabilities and Special Needs

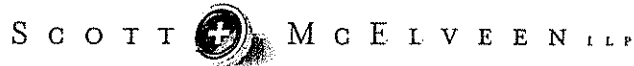
Independent Accountants' Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2004*

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## Independent Accountants' 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 South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the accounting records of the Department of Disabilities and Special Needs (the "Agency") for the fiscal year ended June 30, 2004, in the areas addressed. The Agency'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 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. 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 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.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Section A in the Accountants' Comments sections of this report.

#### CERTIFIED PUBLIC ACCOUNTANTS

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## **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 Agency, 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 recorded 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.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Section B in the Accountants' Comments sections 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 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 controls over the selected 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.

#### **6. Reconciliations**

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Agency's accounting record 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 amount 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 in STARS.

The individual transactions 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 observation of agency personnel performing their assigned duties, 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 2004.

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, 2004, prepared by the Agency 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 (the "GAAP Manual") requirements; if the amounts were reasonable; and if they agreed with the supporting work papers and accounting records.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments sections 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, 2004, prepared by the Agency 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 work papers 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 Accountants' Comments section of the State Auditor's Report on the Agency resulting from the Independent Accountants' Report for the fiscal year ended June 30, 2003, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section C in the Accountants' Comments sections 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 the Board of Trustees and the management of the Department of Disabilities and Special Needs and the management of 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.

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
May 20, 2005

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

The procedures agreed to 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 internal controls. A material weakness is a condition in which the design or operation of one 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 a violation of State Laws, Rules, or Regulations, but is not considered to be a material weakness.

### **Untimely Deposit of Receipts**

Our testing of cash receipts revealed that a check was received by the Coastal Center that was deposited nine calendar days after being received. As a result, the receipt was not deposited in the bank within seven calendar days of receipt by the Agency as required by the 2004 Appropriation Act.

We recommend that the procedures for making deposits be improved to allow for timely deposit of cash receipts.

### **Cash and Investments Closing Package**

Our testing of the cash and investments closing package disclosed that some of the accounts reported by the Agency did not agree with the amounts recorded in the general ledger. One balance was overstated by \$2,615 due to including the balance twice.

Section 3.1 of the GAAP Manual describes how to determine the amounts to be reported for cash and investments.

We recommend that additional care be taken in the preparation and review of the cash and investments closing package.

### **Miscellaneous Accounts Receivable and Related Accounts Closing Package**

Our testing of the amounts reported in the miscellaneous accounts receivable and related accounts closing package disclosed that there were receipts received during the fiscal month thirteen that should have been applied to gross accounts receivable for the fiscal year but were not. Therefore, the calculation of gross accounts receivable was overstated by \$157,335. As a result, the allowance for uncollectible accounts was overstated by \$12,964 and net accounts receivable and current net accounts receivable was overstated by \$144,371.



Section 3.4 of the GAAP Manual describes how to determine the amounts to be reported for receivables.

We recommend that additional care be taken in the preparation and review of the miscellaneous accounts receivable and related accounts closing package. Additional care should be taken that cash receipts near the end of a fiscal year are applied properly to accounts receivable.

## **SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS**

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.

### **Payroll Disbursements and Expenditures**

Our testing of payroll disbursements and expenditures disclosed that the final paychecks of four terminated employees were calculated incorrectly. For two terminated employees, they were paid for an entire pay period but only worked for part of the pay period. For the other two terminated employees, the incorrect hourly pay rate was used to calculate their final paychecks. Because of these instances, terminated employees were overpaid on their final paychecks.

Good internal controls require that employees' payroll checks be reviewed for accuracy and compared to timesheets and approved pay rates.

We recommend that the Agency thoroughly review all final paychecks for terminated employees to ensure that employees are paid correctly.

### **Payroll Disbursements and Expenditures**

Our examination of personnel files disclosed that two employees' personnel files did not contain an Employee Profile or Personnel Action Form. In addition, for one employee there was no signed election form to support a voluntary withholding to the State Credit Union. Because of the lack of this documentation, we were unable to verify the employees' gross wages and net wages.

Good internal controls require that employees' personnel files contain a current Employee Profile or Personnel Action Form stating the current gross wage rate. In addition, all personnel files should contain signed documentation by employees supporting all voluntary payroll withholdings.

We recommend that the Agency thoroughly review all personnel files to ensure that an Employee Profile or Personnel Action Form is present showing the current gross wage rate. In addition, the Agency should review all personnel files to ensure that all files contain signed documentation by the employee showing authorization for all voluntary payroll withholdings.

## **SECTION C – STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Account's Comments Section of the Independent Accountants' Report on applying agreed upon procedures for the fiscal year ended June 30, 2003, and dated June 29, 2004. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2003. The following is the status of each prior year finding:

<b><u>Prior Year Finding</u></b>	<b><u>Status</u></b>
Non-payroll Disbursements and Expenditures	Corrective action taken
Client Funds Disbursements Test	Corrective action taken
Journal Entries	Corrective action taken
Capital Assets Closing Package	Corrective action taken
Accounts Payable Closing Package	Corrective action taken
Cash and Investments Closing Package	Similar finding in section B of current year report
Miscellaneous Accounts Receivable and Related Accounts Closing Package	Similar finding in section B of current year report
Compensated Absences Closing Package	Corrective action taken
Grants/Contributions Receivable and Deferred Revenue Closing Package	Corrective action taken

Stanley J. Butkus, Ph.D.  
State Director  
Robert W. Barfield  
Deputy State Director  
Administration  
Ronald G. Dozier  
Associate State Director  
Operations  
Kathi K. Lacy, Ph.D.  
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June 27, 2005

Mr. Don Mobley  
Scott McElveen, L.L.P.  
1441 Main Street, Suite 800  
Columbia, South Carolina 29202

Dear Mr. Mobley:

In reviewing your findings as a result of our Agreed Upon Procedures Audit for the fiscal year ending June 30, 2004, the South Carolina Department of Disabilities and Special Needs concurs with each item and our comments are attached. We have and are continuing to implement procedures to correct these errors and/or oversights.

For questions concerning our corrective action plans, please contact me at 898.9698, or Michael Thom at 898.9736. We appreciate your help and recommendations during your audit, and your staff was a pleasure to work with.

Sincerely,

Renee R. Moore  
Director of Finance

RRM/lbc

Attachment

DISTRICT I

8301 Farrow Road, Columbia SC 29203  
Phone: 803/935-7412

Midlands Center - Phone: 803/935-7500  
Whitten Center - Phone: 864/833-2733

DISTRICT II

PO Box 3209, Florence SC 29502-3209  
Phone: 843/664-2655

Coastal Center - Phone: 843/873-5750  
Pee Dee Center - Phone: 843/661-2600  
Salisbury Center - Phone: 843/332-4104

## SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

### MANAGEMENT LETTER COMMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

#### SECTION A – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULE, OR REGULATIONS

##### Untimely Deposit of Receipts

Our testing of cash receipts revealed that a check was received by the Coastal Center that was deposited nine calendar days after being received. As a result, the receipt was not deposited in the bank within seven calendar days of receipt by the Agency as required by the 2004 Appropriation Act

We recommend that the procedures for making deposits be improved to allow for timely deposit of cash receipts

**Agency Response:** Coastal Center has a practice of going to the bank on Wednesdays and Fridays or more often, if necessary. This particular special contribution, in the amount of \$75, was deposited in 7 business days (or 9 calendar days). In the future, we will count the week as calendar days.

We have notified Coastal Center and they have implemented procedures to ensure compliance with departmental policy as stated in SCDDSN Finance Manual, Section 3 21: Cash Receipting and Depositing Procedures

##### Cash and Investments Closing Package

Our testing of the cash and investments closing package disclosed that some of the accounts reported by the Agency did not agree with the amounts recorded in the general ledger. One balance was overstated by \$2,615 due to including the balance twice.

Section 3 1 of the GAAP Manual describes how to determine the amounts to be reported for cash and investments.

We recommend that additional care be taken in the preparation and review of the cash and investments closing package.

**Agency Response:** We agree with this finding and have implemented procedures to prevent this error from occurring in the future.

##### Miscellaneous Accounts Receivable and Related Accounts closing Package

Our testing of the amounts reported in the miscellaneous accounts receivable and related accounts closing package disclosed that there were receipts received during the fiscal month thirteen that should have been applied to gross accounts receivable for the fiscal year but were not. Therefore, the calculation of gross accounts receivable was overstated by \$157,335. As a result, the allowance for uncollectible accounts was overstated by \$12,964 and net accounts receivable and current net accounts receivable was overstated by \$144,371.

Section 3 4 of the GAAP Manual describes how to determine the amounts to be reported for receivables.

We recommend that additional care be taken in the preparation and review of the miscellaneous accounts receivable and related accounts closing packages. Additional care should be taken that cash receipts near the end of a fiscal year are applied properly to accounts receivable.

**Agency Response:** We agree with this finding and have implemented procedures to prevent this error from occurring in the future.

## SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS

### Payroll Disbursements and Expenditures

Our testing of payroll disbursements and expenditures disclosed that the final paychecks of four terminated employees were calculated incorrectly. For two terminated employees, they were paid for an entire pay period but only worked for part of the pay period. For the other two terminated employees, the incorrect hourly pay rate was used to calculate their final paychecks. Because of these instances, terminated employees were overpaid on their final paychecks.

Good internal controls require that employees' payroll checks be reviewed for accuracy and compared to timesheets and approved pay rates. We recommend that the Agency thoroughly review all final paychecks for terminated employees to ensure that employees are paid correctly.

**Agency Response:** We recommend that all final paychecks for terminated employees be reviewed to ensure that the correct amounts are being disbursed.

Pertaining E. McDonald, Ms. McDonald was paid only for accumulated annual leave hours. Leave without pay was keyed for the last pay period.

### Payroll Disbursements and Expenditures

Our examination of personnel files disclosed that two employees' personnel files did not contain an Employee Profile or Personnel Action Form. In addition, for one employee there was no signed election form to support a voluntary withholding to the State Credit Union. Because of the lack of this documentation, we were unable to verify the employees' gross wages and net wages.

Good internal controls require that employees' personnel files contain a current Employee Profile or Personnel Action Form stating the current gross wage rate. In addition, all personnel files should contain signed documentation by employees supporting all voluntary payroll withholdings.

We recommend that the Agency thoroughly review all personnel files to ensure that an Employee Profile or Personnel Action Form is present showing the current gross wage rate. In addition, the Agency should review all personnel files to ensure that all files contain signed documentation by the employee showing authorization for all voluntary payroll withholdings.

**Agency Response:** We recommend that all personnel files be reviewed to ensure that an employee profile is present, showing the current gross pay rate. In addition, we recommend that all personnel files be reviewed and contain signed authorization by the employees for voluntary withholdings from paychecks.