

State of South Carolina



Office of the State Auditor

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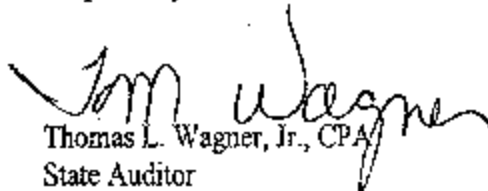
March 30, 2000

The Honorable James H. Hodges, Governor
and
Members of the Disabilities and Special Needs Commission
South Carolina Department of Disabilities and
Special Needs
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Disabilities and Special Needs 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/trb

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES
AND SPECIAL NEEDS**

COLUMBIA, SOUTH CAROLINA



FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 1999

**SOUTH CAROLINA
DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS**

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS
INDEPENDENT AUDITOR'S REPORT

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

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We have audited the accompanying financial statements of the South Carolina Department of Disabilities and Special Needs (the Department) as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements of the South Carolina Department of Disabilities and Special Needs are intended to present the financial position and results of operations of only that portion of the funds and account groups of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Disabilities and Special Needs, a department of the State of South Carolina, and do not include any other funds of the primary government of the State of South Carolina.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina Department of Disabilities and Special Needs as of June 30, 1999 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As explained in Note 25, the Department changed its capitalization policy from \$500 to \$1,000 for general fixed assets. The beginning balance of the general fixed assets account group was adjusted to reflect the change.

As discussed in Note 26 to the financial statements, Department management discovered that, in implementing Governmental Accounting Standards Board Statement No. 31 in the prior year, certain adjustments to the fair value of certain investments were recorded in the



general fund, the debt service fund, and the agency fund in error. The corrections have been accounted for as prior period adjustments and the beginning fund balances have been restated.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Department taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2000, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Rogers & Lalan, PA

Columbia, South Carolina
March 17, 2000

		Governmental Fund Types			
	General	Special Revenue	Capital Projects	Debt Service	
ASSETS AND OTHER DEBITS					
Cash and Cash Equivalents	\$ 21,340,013	\$ 103,465	\$ 12,179,020	\$ 7,325,836	
Investments	374,838				
Receivables (net):					
Medicaid	18,106,905				
Care and Maintenance				317,230	
Capital Improvement Bonds			2,741,758		
Other					
Due from General Fund of the State	4,512,037				
Due from Other Funds	92,636				
Due from Grantors	19,848	174,493			
Due from Other State Agencies	31,473				
Advances to Other Funds		12,500		1,000	
Inventories	568,637	3,793			
General Fixed Assets					
Amount Available in Debt Service Funds					
Amount to be Provided for					
Retirement of Long-term Debt					
TOTAL ASSETS AND OTHER DEBITS	\$ 45,046,387	\$ 294,251	\$ 14,920,778	\$ 7,644,066	
LIABILITIES, FUND EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts Payable	\$ 4,882,251	\$ 83,909	\$ 142,077		
Retainages Payable			75,951		
Accrued Payroll and Related Benefits	6,452,451	3,859			
Due to the General Fund of the State	2,267,464	463			
Due to Other State Agencies	54,334				
Due to Other Funds		92,636			
Advances from Other Funds	1,000				
Deferred Revenue		3,793			
Funds Held in Trust					
Compensated Absences Payable					
Notes Payable					
Total Liabilities	\$ 13,657,500	\$ 184,660	\$ 218,028	\$ -	
Fund Equity and Other Credits:					
Investment in General Fixed Assets					
Fund Balances:					
Reserved for:					
Capital Project Expenditures			\$ 14,702,750		
Inventories	\$ 568,637				
Work Activities		\$ 109,591			
Debt Service				\$ 7,644,066	
Unreserved, Undesignated	30,820,250				
Total Fund Equity and Other Credits	\$ 31,388,887	\$ 109,591	\$ 14,702,750	\$ 7,644,066	
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 45,046,387	\$ 294,251	\$ 14,920,778	\$ 7,644,066	

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South Carolina Department of Disabilities and Special Needs				
Combined Statement of Revenues, Expenditures,				
and Changes in Fund Balances				
All Governmental Fund Types				
For the Fiscal Year Ended June 30, 1999				
	General	Special Revenue	Capital Projects	Debt Service
Revenues:				
State Appropriations	\$ 131,715,835			
Federal Grants and Reimbursements	95,652	\$ 1,205,634		
Other Grants and Contracts	499,129			
Education Improvement Act Funds	804,298			
Medicaid	177,419,251			
Client Fees				\$ 3,892,794
Work Activity Centers		205,041		
Patient Day Fees	7,280,626			
Canteen Sales	24,602			
Donations	75,755			
Investment Income	160,158			373,390
Court Fines	112,031			
Sale of Land and Building			\$ 181,112	
Other Revenues	39,656			
Total Revenues	\$ 318,226,993	\$ 1,410,675	\$ 181,112	\$ 4,266,184
Expenditures:				
Administration	\$ 8,900,750			
Prevention	4,881,527	\$ 70,945		
Mental Retardation Family Support	71,369,672	1,025,958		
Mental Retardation Community Residential	106,381,009			
Autism Family Support	3,054,108	25,529		
Autism Community Residential	5,040,503			
Head and Spinal Cord Injury Family Support	4,072,853			
Head and Spinal Cord Injury Community Residential	442,364	31,636		
Regional Centers Residential	96,189,596	361,062		
Capital Outlay			\$ 1,374,377	
Repair and Maintenance			837,884	
Debt Service:				
Principal				\$ 373,093
Interest				156,042
Total Expenditures	\$ 300,332,382	\$ 1,515,130	\$ 2,212,261	\$ 529,135
Excess Revenues Over (Under) Expenditures	\$ 17,894,611	\$ (104,455)	\$ (2,031,149)	\$ 3,737,049
Other Financing Sources (Uses):				
Remitted to the General Fund of the State	\$ (7,280,626)			
Indirect Costs Remitted to the General Fund of the State	(3,169,113)	\$ (22,639)		
EIA Funds Remitted to the State Department of Education	(52,204)			
Operating Transfers:				
From Debt Service Fund to General Fund	126,000			\$ (126,000)
From Special Revenue Fund to General Fund	1,400	(1,400)		
From Debt Service Fund to Capital Projects Fund			\$ 2,672,146	(2,672,146)
Total Other Financing Sources (Uses)	\$ (10,374,543)	\$ (24,039)	\$ 2,672,146	\$ (2,798,146)
Fund Balance, July 1, 1998, as restated	23,850,832	238,085	14,061,753	6,705,163
Increase in Reserve for Inventories	17,987			
Fund Balance, June 30, 1999	\$ 31,388,887	\$ 109,591	\$ 14,702,750	\$ 7,644,066
See Accompanying Notes to Financial Statements				

<p align="center">South Carolina Department of Disabilities and Special Needs</p> <p align="center">Statement of Expenditures - Budget and Actual - All Budgeted Funds</p> <p align="center">For the Fiscal Year Ended June 30, 1999</p>									
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	BUDGETARY GENERAL FUND			
	Legal Basis Budget		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Personal Services	\$ 46,907,382		\$ 46,837,749	\$ 69,633
Other Operating Expenses	70,180,904		69,641,647	539,257
Case Services	1,586,194		1,193,661	392,533
Employer Contributions	13,433,695		13,420,549	13,146
Allocations to Private Sector				
Allocations to State Agencies				
Special Items:				
Special Olympics	24,175		24,175	0
Greenwood Genetics Center				
Total Expenditures	\$ 132,132,350		\$ 131,117,781	\$ 1,014,569
	OTHER BUDGETED FUNDS			
	Legal Basis Budget		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Personal Services	\$ 23,018,693		\$ 22,938,420	\$ 80,273
Other Operating Expenses	156,035,125		138,041,940	17,993,185
Case Services	4,841,140		3,221,557	1,619,583
Employer Contributions	6,643,943		6,496,174	147,769
Allocations to Private Sector	125,000		47,581	77,419
Allocations to State Agencies	25,000			25,000
Special Items:				
Special Olympics				
Greenwood Genetics Center	126,000		126,000	0
Total Expenditures	\$ 190,814,901		\$ 170,871,672	\$ 19,943,229
	TOTAL BUDGETED FUNDS			
	Legal Basis Budget		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Personal Services	\$ 69,926,075		\$ 69,776,169	\$ 149,906
Other Operating Expenses	226,216,029		207,683,587	18,532,442
Case Services	6,427,334		4,415,218	2,012,116
Employer Contributions	20,077,638		19,916,723	160,915
Allocations to Private Sector	125,000		47,581	77,419
Allocations to State Agencies	25,000		0	25,000
Special Items:				
Special Olympics	24,175		24,175	0
Greenwood Genetics Center	126,000		126,000	0
Total Expenditures	\$ 322,947,251		\$ 301,989,453	\$ 20,957,798
See Accompanying Notes to Financial Statements				

South Carolina Department of Disabilities and Special Needs				
Statement of Changes in Assets and Liabilities				
Agency Fund Type				
Clients' Funds				
For the Fiscal Year Ended June 30, 1999				
	Balances As Restated July 1, 1998	Additions	Deductions	Balances June 30, 1999
ASSETS				
Cash and Cash Equivalents	\$ 1,646,134	\$ 7,609,680	\$ 7,550,211	\$ 1,705,603
Accounts Receivable	5,757		1,058	4,699
TOTAL ASSETS	\$ 1,651,891	\$ 7,609,680	\$ 7,551,269	\$ 1,710,302
LIABILITIES				
Advances from Other Funds	\$ 12,500			\$ 12,500
Funds Held in Trust	1,639,391	\$ 7,609,680	\$ 7,551,269	1,697,802
TOTAL LIABILITIES	\$ 1,651,891	\$ 7,609,680	\$ 7,551,269	\$ 1,710,302
See Accompanying Notes to Financial Statements				

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of all funds of the South Carolina Department of Disabilities and Special Needs were prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies follows.

a. Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is the State of South Carolina. The State has determined that the Department is a part of the primary government, but is not legally separate.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The funds and account groups of the Department are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointment by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

1. Determine its budget without another government's having the authority to approve and modify that budget.
2. Levy taxes or set rates or charges without approval by another government.
3. Issue bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary entity that holds one or more of these powers.

The Department of Disabilities and Special Needs is an agency of the State of South Carolina established pursuant to Section 44-20-10 et seq. of the 1976 Code of Laws of the State of South Carolina, as Amended. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of the Department. The mission of the Department of Disabilities and Special Needs is to improve services for citizens with mental retardation, autism, head and spinal cord injuries, and related disabilities. The Department advocates for people with mental retardation, autism, head and spinal cord injuries or related disabilities both as groups and as individuals to achieve access to appropriate services from all public agencies in South Carolina. When needed services cannot be achieved through such public agencies, the Department seeks resources to provide such services. The Department coordinates through local service coordination those services provided by other agencies with those provided directly by the Department and county disabilities and special needs boards.

The Commission of the Department of Disabilities and Special Needs, whose seven members are appointed by the Governor with the advice and consent of the Senate, is the governing body of the South Carolina Department of

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

Disabilities and Special Needs. The Commission administers the programs of the Department by setting policy, which is implemented and carried out by the State Director and staff. The accompanying financial statements present the financial position and revenues, expenditures and changes in fund balances solely of the Department of

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Disabilities and Special Needs and do not include any other agencies, funds or account groups or units of the primary government of the State of South Carolina.

b. Basis of Presentation - Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Department, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions have been recorded and reported by fund type. In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specific use are presented as reserved at June 30, 1999. The portions of fund balances in which tentative uses have been established are presented as designated at June 30, 1999.

Governmental Funds

Governmental Funds finance most of the Department's governmental functions. The measurement focus of the Governmental funds is on sources, uses, and balances of financial resources. Governmental funds include the general, special revenue, capital projects and debt service funds.

The General Fund accounts for State appropriations which are approved by the General Assembly to fund operations of the Department, Medicaid reimbursements, other revenues designated for Departmental operations, and discretionary contributions, as well as expenditures for carrying out the related objectives. Additionally, revenues which arise from collection of Intermediate Care Facilities for the Mentally Retarded's patient day fee, rental property, sale of surplus supplies and equipment and other miscellaneous transactions which are remitted to the General Fund of the State as required by statute are accounted for in the general fund.

The Special Revenue Fund accounts for financial activity for grants received from various Federal agencies and work activity programs in which clients perform work for various companies which contract with the Department.

The Capital Projects Fund accounts for revenues earmarked for the purchase of, improvements to or repairs and maintenance to real property, including the initial equipment in new buildings. Expenditures for these assets are recorded in this fund and subsequently capitalized at cost in the general fixed assets account group if capitalization criteria are met. Resources recorded in this fund include proceeds from State Capital Improvement Bonds issued by the State and proceeds from Departmental Capital Improvement Bonds for which the Department is responsible for repayment when converted to intrastate notes payable. Proceeds from sale of real property as authorized by Proviso 11.2 of the 1999 Appropriations Act and transfers from other funds approved by the State Budget and Control Board are also recorded in this fund.

The Debt Service Fund accounts for charges to clients and third party insurers for room, board, and other services which are deposited with the State Treasurer and are legally restricted for the retirement of intrastate notes payable to the State. These notes represent the legal liability to repay draw downs from Departmental Capital Improvement Bonds. The draw downs are used to fund capital projects. With approval of the State Budget and Control Board, excess debt service funds may be used for specified capital project expenditures, awards to local disabilities and special needs boards, and non recurring prevention, assistive technology, and quality initiatives. Additionally, the General Assembly may authorize the use of debt service funds for purposes it deems appropriate. Principal and interest due on Departmental Capital Improvement Bonds are recorded as expenditures in the year due.

Fiduciary Funds

Fiduciary funds account for resources the Department holds as trustee or agent for individuals. Fiduciary funds include both trust and agency funds. Currently, the Department has only an agency fund.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

The Agency Fund is custodial in nature and does not involve measurement of results of operations. Funds received by clients for their care and benefit are recorded in the Agency Fund. Each residential center serves in a fiduciary capacity with respect to receiving and disbursing these funds on behalf of the clients. The fund does not have any

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

revenues or expenditures and therefore, does not have a fund balance. Transactions consist solely of receiving and disbursing funds belonging to clients. The Department is at all times liable to clients for the cash balances held as custodian.

Account Groups

Account groups are used to establish accounting control and accountability for a government's general fixed assets and the unmatured principal of its general long term debt. The General Fixed Assets Account Group accounts for all fixed assets of the Department. The General Long-term Debt Account Group accounts for all long-term obligations. Long-term obligations include bonds, notes, capital leases, and compensated absences.

c. Basis of Accounting

Governmental fund revenues and expenditures are recognized on the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures. Federal reimbursement type grants are recorded as revenues when the related expenditures are incurred. Proceeds from capital improvement bonds are recognized in the year authorized. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term obligations, which is recognized when due. Payments for prepaid items are recognized as an expenditure in the year of payment. Transfers are recognized in the accounting period in which the interfund receivable and payable arise. Agency fund assets and liabilities are accounted for on the modified accrual basis.

d. Budget Policy

The Department is granted an annual appropriation for operating purposes by the General Assembly of the State of South Carolina. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriations Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriations Act includes all budgeted resources. A revenue budget is not adopted for individual agencies. The General Assembly enacts the budget through passage of summary object of expenditure appropriations by program within agency within budgetary fund. Budgetary control is maintained at the summary object of expenditure level of the agency entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist. Agencies may request transfers of appropriations among summary object categories and/or among programs within the same budgetary fund.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriations Act Proviso 72.14 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts to personal services accounts may be restricted to any level set by the Board.

Agencies may charge vendor, interagency, and interfund payments for fiscal year 1999 to fiscal year 1999 appropriations in July 1999. Up to 10% of original State General Fund appropriations to an agency may be carried forward and expended in the next fiscal year. Any unexpended State General Fund monies as of June 30th in excess of 10% of original appropriations automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis method of accounting with several exceptions, principally the cash basis for payroll expenditures. Because the legally prescribed budgetary basis differs materially from generally accepted accounting principles (GAAP), actual amounts in the accompanying

budgetary

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary basis and generally accepted accounting principles basis is presented in Note 3.

The Statement of Expenditures - Budget and Actual - All Budgeted Funds presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a summary object of expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

e. Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and cash on deposit in banks.

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 4.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Investments in the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained by the Department. Interest/investment earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool. Investment income includes interest and dividend earnings, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

f. Inventories

Inventories of food, medical supplies and drugs, and maintenance materials and parts are accounted for using the "purchase" method whereby inventories are recorded as expenditures on acquisition and inventories on hand at year end are reflected at cost in the assets section of the balance sheet except for USDA commodities which are reflected at the fair market value on the date of acquisition using the first in, first out method. For financial statement purposes, inventories on hand as of each year end are offset by a fund balance reserve account except for USDA commodities which are offset by a deferred revenue account.

g. Fixed Assets

Land, land improvements and infrastructure assets (streets, sidewalks, drainage systems and similar assets that are immobile and of value to the Department only), buildings, furniture, fixtures and equipment, and construction in progress capital outlays which are paid in full at time of acquisition are recorded as expenditures of the applicable fund and simultaneously capitalized at cost in the general fixed assets account group. Donated fixed assets are recorded at their fair market value on the date of contribution. Fixed asset additions purchased through installment purchase or capitalized lease contracts are capitalized in the general fixed assets account group in the year of acquisition at their total cost, excluding interest charges. Payments of principal on such contracts are recorded as

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

expenditures of the applicable fund and program from which paid. Net interest expenditures are not capitalized.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Cumulative capital project expenditures other than repair and maintenance projects are capitalized as land, land improvements, buildings, and equipment, furniture and fixtures in the general fixed assets account group when the projects are substantially complete and available for use. In accordance with generally accepted accounting principles for governmental entities, a provision for depreciation of general fixed assets is not recorded.

h. Compensated Absences

State employees are entitled to accrue and carry forward at calendar year end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. At fiscal year end, state employees could have a maximum accumulated annual leave for which they could be paid of 60 days. The Department calculates the gross compensated absences liability for unused annual vacation leave based on recorded balances and reports the liability based on that portion the employer expects to compensate employees for the benefits through paid time off or cash payments. In the governmental funds, expenditures for compensated absences are recorded when payment is made. Therefore, the entire unpaid liability for the governmental funds, inventoried at fiscal year end current salary costs and the cost of salary related benefit payments, is recorded in the general long-term debt account group.

i. Indirect Costs Recoveries

The Department's indirect cost recoveries are calculated based on fixed rates negotiated annually. The Department records indirect cost recoveries paid under federal grants as revenues in the special revenue fund. The Department records indirect cost recoveries paid under non-federal grants and through Medicaid fees as revenues in the general fund. Indirect cost recoveries must be remitted to the State General Fund except those received under research grants which may be retained by the Department. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

j. Totals (Memorandum Only) Column

Amounts in the "Totals - Memorandum Only" column represent an aggregation of the combined balance sheet line items to facilitate financial analysis. Amounts in the "Totals - Memorandum Only" column are not comparable to a consolidation.

k. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

l. Other Significant Accounting Policies

Other significant accounting policies are included in the succeeding notes to the financial statements.

NOTE 2. STATE APPROPRIATIONS

The Department is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end are required to be returned to the General Fund of the State unless the Department receives authorization from the General Assembly to carry the funds over to the next year.

The 1998-99 original appropriation is the Department's base budget amount presented in the General Funds column of Section 11 of Part 1A of the Appropriations Act. The following is a reconciliation of the original appropriation as

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1999:

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Original Appropriation	\$ 127,873,835
State Budget and Control Board Allocation: Employee Pay Increases (Proviso 63C.12)	2,618,640
Transfer from the Department of Health and Human Services for Home and Community Based Waiver Services	810,293
Transfer to the Department of Health and Environmental Control for Interagency Disabilities Prevention Program	<u>(19,000)</u>
Revised Appropriation - Legal Basis	\$ 131,283,768
Funding for Net Payroll Accrual Adjustments	<u>432,067</u>
State Appropriation Revenue - Accrual Basis	<u>\$ 131,715,835</u>

Certain of the Department's payroll expenditures are funded from State General Fund appropriations. The "Due from the General Fund of the State" reported in the General Fund represents monies due from the State General Fund for applicable Departmental personal services and employer contributions expenditures accrued at June 30, but paid in July from 1999-2000 appropriations. State law provides for such payroll costs to be paid from the next year's appropriations.

Proviso 72.48 of the 1998-99 Appropriations Act authorizes each agency to carry forward unspent State General Fund appropriations from the 1997-98 fiscal year into the 1998-99 fiscal year up to a maximum of 10% of its original appropriation less any appropriation reductions. Agencies which have separate carry forward authority must exclude the amount carried forward by such separate authority from their base for purposes of calculating the 10% carry forward. Pursuant to this proviso, the Department carried forward \$848,582 to this fiscal year. The Department carried forward \$1,030,248 of appropriations from 1998-99 to the 1999-2000 fiscal year pursuant to Proviso 72.48 of the 1999-2000 Appropriations Act.

NOTE 3. BUDGETARY REPORTING BASIS

The financial statements prepared on the legally enacted basis differ from the GAAP basis statements. Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassification from financial statement fund types to budgetary fund categories and reversals of payroll accruals and related fringe benefits. The Statement of Expenditures, Budget and Actual - All Budgeted Funds presents all funds for which a legal basis budget was enacted. Capital Projects and Debt Service Funds are not budgeted on an annual basis and are omitted from the statement. Acquisition of fixed assets by donation are unbudgeted while capital lease purchase transactions are budgeted in the year of payment. The following schedule reconciles the differences:

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

	Financial Statement Fund Type		Budgetary Fund Category	
	General	Special Revenue	General Fund	Other
Expenditures on GAAP Basis	\$300,332,382	\$ 1,515,130		
Fund Reclassifications:				
State Appropriations	(131,549,848)		\$131,549,848	
Federal Grants		(1,181,595)		\$ 1,181,595
Other	(168,782,534)	(333,535)		169,116,069
Net Accruals:				
Personal Services and Employer Contributions			(432,067)	574,008
Expenditures on Legal Basis	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$131,117,781</u>	<u>\$ 170,871,672</u>

NOTE 4. DEPOSITS AND INVESTMENTS

All deposits and investments of the Department are under control of the State Treasurer who, by law, has sole authority for investing State funds.

DEPOSITS:

The following schedule reconciles deposits within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>	
Cash and Cash Equivalents	<u>\$42,653,937</u>
<u>Footnotes</u>	
Cash on Hand	\$ 9,900
Deposits Held by State Treasurer	42,594,085
Other Deposits	<u>49,952</u>
	<u>\$42,653,937</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the fair values and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. Deposits held by the State Treasurer include \$20,392 in unrealized gains as of June 30, 1999.

Other Deposits

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Funds not on deposit with the State Treasurer as of June 30, 1999 are Agency Funds with a carrying amount of \$49,952 and a bank balance of \$82,313. These funds are fully insured or collateralized with securities held by the Department's agent in the Department's name.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

INVESTMENTS:

The accounts classified as "Investments" in the general fund are comprised of donated corporate stocks held by the State Treasurer in the Department's name and mutual funds, some of which are held by the State Treasurer and others of which are held by counterparty or agent not in the Department's name. Investments are carried at fair value.

The Department's investments other than mutual funds are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Department's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Department's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Department's name. The Department has investments in Category 1.

The fair value of the securities in Category 1 which are held by the State Treasurer in the Department's name at June 30, 1999 are \$130,758 including unrealized gains of \$96,850.

Also, the Department owns shares in mutual funds which are not subject to categorization, with a fair value of \$244,080 including unrealized gains of \$45,620.

NOTE 5. RECEIVABLES

An analysis of receivables is as follows:

	General Fund	Debt Service Fund
Total receivables	\$18,106,905	\$932,621
Less: Allowance for doubtful accounts	<u>0</u>	<u>106,177</u>
Net receivables	<u>\$18,106,905</u>	<u>\$826,444</u>
Amount available to meet current financial obligations	\$18,106,905	\$317,230
Amount not available to meet current financial obligations		\$509,214

In accordance with the Department's revenue recognition policy as outlined in Note 1, the receivables presented on the balance sheet are available to meet the current financial obligations. The above receivables not available to meet the current financial obligations are disclosed as amounts due the agency to meet future obligations. Allowances for doubtful accounts are based on historical analysis.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

NOTE 6. INVENTORIES

Inventories at June 30, 1999 consist of the following:

Food	\$207,880
Medical and Drugs	212,185
Maintenance Materials and Parts	<u>152,365</u>
	\$572,430
Less, USDA commodities reflected in the Special Revenue Fund	<u>(3,793)</u>
Totals	<u>\$568,637</u>

During fiscal year 1999 the Department received \$15,791 of USDA commodities and consumed \$12,540 of USDA commodities.

NOTE 7. AMOUNTS DUE FROM/TO GENERAL FUND OF THE STATE

The amount due from the General Fund of the State at June 30, 1999 of approximately \$4,500,000 represents the amount due for personal services and the related fringe benefits expenditures accrued at June 30 for employees funded by State Appropriations but paid on or after the subsequent July 1. South Carolina State law provides for the payroll accruals being paid with subsequent year appropriations.

The amount due to the General Fund of the State from the General Fund at June 30, 1999 of approximately \$2,270,000 represents primarily Medicaid indirect and overhead cost recoveries and nursing home bed fees. The Medicaid indirect and overhead cost recoveries and nursing home bed fees were remitted in July 1999.

The amount due to the General Fund of the State from the Special Revenue Fund of approximately \$500 at June 30, 1999 represents indirect cost recoveries billed to grantors but not yet received at June 30, 1999.

NOTE 8. DUE BETWEEN FUNDS

Amounts due between funds represent short-term loans of approximately \$93,000 from the general fund to the federal grants fund within the special revenue fund to fund temporary deficit cash balances. The short term loan of approximately \$93,000 was liquidated in fiscal year 2000 when reimbursements were received from federal grantors.

The \$12,500 advance between funds is a long term transaction to provide petty cash for client needs while the \$1,000 advance between funds is a long term transaction to provide cash for the return check account as required by the State Treasurer.

NOTE 9. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 1999 follows:

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

	Balances As Restated <u>July 1, 1998</u>	<u>Additions</u>	Deletions, <u>Retirements</u>	Balances <u>June 30, 1999</u>
Land	\$ 1,692,950		\$ 11,631	\$ 1,681,319
Land Improvements	3,775,628	\$ 255,780		4,031,408
Buildings	80,217,300	1,887,839	40,833	82,064,306
Equipment, Fixtures and Furniture	19,436,531	1,382,550	1,049,374	19,769,707
Construction in Progress	<u>1,234,524</u>	<u>1,374,377</u>	<u>2,192,768</u>	<u>416,133</u>
Total	<u>\$ 106,356,933</u>	<u>\$ 4,900,546</u>	<u>\$ 3,294,606</u>	<u>\$ 107,962,873</u>

Also, see note 25.

NOTE 10. CONSTRUCTION COSTS AND COMMITMENTS

The Department has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities. As of June 30, 1999 the Department had committed approximately \$300,000 of these funds with certain property owners, engineering firms, construction contractors, and vendors. Management estimates that the Department has sufficient resources available to satisfactorily complete such capital projects which are expected to be completed in varying phases over the next two years at an estimated cost of approximately \$3,200,000. Of the total cost, approximately \$2,800,000 is unexpended at June 30, 1999. Also, the Department has projects which will be expensed over the next two years at an estimated cost of \$4,400,000 with approximately \$2,800,000 unexpended at June 30, 1999.

NOTE 11. PENSION PLANS AND OTHER EMPLOYEE BENEFITS

Substantially all employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all state employees are required to participate in and contribute to the System as a condition of employment unless exempted by law as provided in Section 91-480 of the South Carolina Code of Laws. This plan provides annuity benefits as well as disability, cost of living adjustment, death and group-life insurance benefits to eligible employees and retirees.

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Under SCRS employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service. The benefit formula for full benefits effective July 1, 1989, for the System is 1.82% of an employee's average final compensation multiplied by the number of years of creditable service. An early retirement option with reduced benefits is available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years of credited service.

A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

SCRS for the years ending June 30, 1999, 1998, and 1997 were approximately \$5,010,000, \$5,170,000 and \$5,510,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$100,000 in the current fiscal year at the rate of 0.15 percent of compensation.

Some of the employees are covered by the South Carolina Police Officer's Retirement System (PORS), a cost-sharing multiple employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order, protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under PORS employees are eligible for a monthly pension payable at age 55 with a minimum of 5 years of service or 25 years of credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with 5 years of service. The benefit formula for full benefits, effective July 1, 1989, for the system is 2.14% of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefit for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50% of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The Department's actual contributions to the PORS for the years ending June 30, 1999, 1998 and 1997 were approximately \$14,000, \$16,000 and \$17,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$300 and accidental death insurance contributions of approximately \$300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is 0.20% of compensation.

The amounts paid by the Department for pension, group-life, and accidental death benefits are reported as employer contributions expenditures of the applicable fund and program.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the retirement plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriations Act and amounts from other applicable revenue sources. Accordingly, the Department recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

NOTE 12. POST RETIREMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the Annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time employees and certain permanent part time employees of the Department are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget & Control Board for all participating State retirees, except the portion funded through the pension surcharge, and provided from other applicable revenue sources of the Department for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 20,000 State retirees met these eligibility requirements as of June 30, 1999.

The Department recorded employer contribution expenditures applicable to these benefits in the amount of approximately \$6,870,000 for active employees for the year ended June 30, 1999. As discussed in Note 11, the Department paid approximately \$1,350,000 applicable to the 2.03% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to the Department retirees is not available. By State law, the Department has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 13. DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employees of its political subdivisions. Certain employees of the Department have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans.

NOTE 14. OPERATING LEASES

The Department is obligated under certain operating leases for real property which expire in various years through 2028. The future obligations under these noncancellable leases with an initial or remaining term at June 30 of one year or more are as follows:

Year ending June 30,	2000	1
	2001	1
	2002	1
	2003	1
	2004	1

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Thereafter	<u>23</u>
Total	<u>\$ 28</u>

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Lease payments for real property during the year ended June 30, 1999 were approximately \$101,000.

The Department is obligated under operating leases for equipment which expire in various years through fiscal year 2005. The future obligations under these noncancellable leases with initial or remaining terms at June 30 of one year or more are as follows

Year ending June 30,	2000	\$130,663
	2001	76,627
	2002	20,425
	2003	6,066
	2004	2,485
	Thereafter	<u>755</u>
	Total	<u>\$237,021</u>

Lease payments for equipment during the year ended June 30, 1999 were approximately \$238,000.

NOTE 15. CAPITAL IMPROVEMENT BONDS

In prior years the State authorized use of funds for capital projects using the proceeds of State Capital Improvement Bonds and Departmental Capital Improvement Bonds. The State Capital Improvement Bonds are issued as general obligations of the State and do not have to be repaid by the Department and, therefore, are not recorded as a Department liability. The Department is liable for repayment of the Departmental Capital Improvement Bonds (see Note 16 regarding intrastate notes payable.) The authorized funds can be requested as needed when approval to begin specific projects has been obtained from State authorities.

A summary of active Capital Improvement Bonds as of June 30, 1999 is as follows:

	Amount Authorized at <u>June 30, 1999</u>	Authorized and Drawn in <u>Prior Years</u>	<u>Drawn in</u> <u>Current Year</u>	<u>Undrawn at</u> <u>June 30, 1999</u>
State Capital Improvement Bonds				
Act 194 of 1979	\$ 407,828	\$ 388,628		\$ 19,200
Act 518 of 1980	2,983,919	2,963,257	\$ (388) (A)	21,050
Act 538 of 1986	<u>2,300,000</u>	<u>1,956,303</u>		<u>343,697</u>
Total	\$ 5,691,747	\$ 5,308,188	\$ (388)	\$ 383,947
Departmental Capital Improvement Bonds				
Act 646 of 1978	\$ 1,938,290	\$ 1,646,867		\$ 291,423
Act 179 of 1981	1,392,093	1,386,942		5,151
Act 638 of 1988	<u>2,100,000</u>	<u>38,763</u>		<u>2,061,237</u>
Total	\$ 5,430,383	\$ 3,072,572	\$ 0	\$ 2,357,811
Totals	<u>\$11,122,130</u>	<u>\$8,380,760</u>	<u>\$ (388)</u>	<u>\$2,741,758</u>

(A) This represents State bonds drawn in prior years and refunded in the fiscal year ended June 30, 1999. No other draws were made during the fiscal year.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

NOTE 16. INTRASTATE NOTES PAYABLE

Intrastate notes payable to the State Budget and Control Board are for funds advanced for the financing of capital project expenditures from Departmental Capital Improvement Bonds (see Note 15). Future resources to repay these debts are to be provided from client fees. During the year ended June 30, 1999, the Department paid approximately \$373,000 of principal and approximately \$156,000 of interest on these notes.

A summary of the outstanding notes as of June 30, 1999 follows:

<u>Issue Date</u>	<u>Original Face Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Annual Principal Installment(A)</u>	<u>Unpaid Principal Balance June 30, 1999</u>
10/20/80	2,300,000	12/01/99	9.000%	115,000	\$ 115,000
06/08/87	735,669	12/01/06	6.400%	37,000	296,000
06/01/93	2,288,348	06/01/09	6.650%	123,941	<u>1,681,365</u>
					<u>\$ 2,092,365</u>

(A) For the year ended June 30, 2000.

Annual payments of principal are due on the notes with interest being payable semiannually.

Details of annual debt service, including interest, for each year are as follows:

<u>Year Ending June 30,</u>	<u>Intra-State Notes</u>
2000	\$ 408,660
2001	286,117
2002	283,749
2003	281,381
2004	279,014
Thereafter	<u>1,278,464</u>
Total debt service obligations	\$2,817,385
Less, interest	<u>725,020</u>
Principal balances outstanding at June 30, 1999	<u>\$2,092,365</u>

NOTE 17. CHANGES IN GENERAL LONG-TERM DEBT

The following is a summary of changes in general long-term debt for the year ended June 30, 1999:

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

	Balances <u>July 1, 1998</u>	<u>Additions</u>	<u>Retirements</u>	Balances <u>June 30, 1999</u>
Compensated Absences Payable (A)	\$ 7,612,204	\$ 0	\$ 27,256	\$ 7,584,948
Intrastate Notes Payable	\$ 2,465,458	\$ 0	\$ 373,093	\$ 2,092,365
Totals	<u>\$10,077,662</u>	<u>\$ 0</u>	<u>\$ 400,349</u>	<u>\$ 9,677,313</u>

(A) Changes in compensated absences payable are reflected at net since details to support gross increases and decreases are not available.

NOTE 18. MEDICAID COST REIMBURSEMENT

Medicaid revenues are received under cost reimbursement agreements from Medicaid intermediaries. For the year ended June 30, 1999, these reimbursements were approximately \$177,000,000. Reimbursements are subject to examination and adjustments by the governmental intermediary. Adjustments to cost reimbursements are recorded in the period in which they are received. During the year ended June 30, 1999, the Department received Medicaid adjustments of approximately \$3,900,000 for settlements resulting from examinations of the fiscal year ending June 30, 1997. Examinations of the fiscal year ended June 30, 1998 resulted in notification of additional positive adjustments of approximately \$5,800,000 to be received with future Medicaid reimbursements. The Medicaid desk audits for the year ended June 30, 1999 have not been completed as of the date of this report.

Proviso 11.4 of the 1999 Appropriations Act authorized the Department to retain and carry forward funds received due to prior year settlements under Medicaid funded contracts.

NOTE 19. CONTINGENCIES

The Department is involved in a number of legal proceedings and claims with various parties arising in the normal course of business. These proceedings and claims cover a wide range of matters including personal injury, medical malpractice, and negligence. In some of these cases, the remedies that may be sought or damages claimed are substantial. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these events is remote, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the Department. Therefore, an estimated liability has not been recorded. The outcome of any litigation has an element of uncertainty.

The various federal programs administered by the Department for fiscal year 1999 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts which may be due federal grantors, if any, have not been determined but the Department believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Department.

NOTE 20. TRANSFER FROM DEBT SERVICE FUND TO GENERAL FUND

For the year ended June 30, 1999 the Department transferred \$126,000 from the Debt Service Fund to promote expanded prenatal diagnosis of mental retardation and related defects by the Greenwood Genetics Center pursuant to Proviso 11.3 of the 1999 Appropriations Act.

NOTE 21. FUND BALANCE RESERVED FOR CAPITAL PROJECTS

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

The fund balance reserved for capital projects is comprised of excess debt service funds (approximately \$10,700,000), proceeds from the sale of real property (approximately \$1,100,000), capital improvement bonds authorized but undrawn (approximately \$2,700,000; see Note 15) and departmental funds (approximately \$200,000).

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

The Department receives approval at various intervals to use excess debt service funds from client fees revenues for capital projects. The funds when collected remain in the debt service fund until they are transferred by the State Treasurer to excess debt service reserve account when capital projects are approved. Funds are transferred by the State Treasurer from the excess debt service reserve account to specific capital project accounts when needed to meet expenditures incurred. The amount of excess debt service funds transferred from the debt service fund to excess debt service reserve in the capital projects fund during the year ended June 30, 1999 was approximately \$2,700,000. Approximately \$2,100,000 was transferred from excess debt service reserve to specific capital projects accounts to meet expenditure needs during the year ended June 30, 1999.

Proviso 11.2 of the 1998-99 Appropriations Act authorizes the Department to retain proceeds from the sale of excess real property in the capital projects fund and to use the funds for the purchase of land and the construction of community residences.

In prior years the Department requested and received approval from the Budget and Control Board to transfer funds from its general fund to the capital projects fund to fund specific capital projects. Once transferred, the funds are retained in the capital projects funds until the completion of the approved projects. No additional funds were transferred during the 1998-99 fiscal year.

NOTE 22. FUND BALANCE RESERVED FOR WORK ACTIVITIES

Proviso 11.1 of the 1999 Appropriations Act authorized the Department to retain funds earned from production contracts of Work Activity Training Programs for individuals with mental retardation and related disabilities to use for other operating expenses and/or permanent improvements of these Work Activity Training Programs.

NOTE 23. TRANSACTIONS WITH STATE ENTITIES

The Department has significant transactions with the State of South Carolina and various State agencies. As required by Section 44-20-355 of the 1976 Code of Laws of South Carolina, as Amended, the Department collected a \$8.50 per day Patient Day Fee from all State Intermediate Care Facilities for the Mentally Retarded and remitted the fees to the General Fund of the State. The amount collected and remitted in the fiscal year end June 30, 1999 was approximately \$7,300,000.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking, and investment functions from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the South Carolina State Budget and Control Board include retirement plan administration, insurance plans administration, audit services, grant services, personnel management, assistance in the preparation of the State Budget and record keeping and review and approval of certain budget amendments, procurement services and other centralized functions.

The Department had financial transactions with various other State agencies during the fiscal year. Significant payments were made to divisions of the South Carolina State Budget and Control Board for retirement and insurance plans contributions, insurance coverage, telephone, and interagency mail and supplies. Significant payments were also made for unemployment and worker's compensation coverage for employees. The amounts of 1999 expenditures applicable to related party transactions are not readily available. The approximately \$50,000 due to other state agencies represents an amount paid subsequent to fiscal year end to various agencies.

The Department provided no significant services to any other State agencies during the fiscal year ended June 30, 1999.

NOTE 24. RISK MANAGEMENT

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year.

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Settled claims have not exceeded this coverage in any of the past three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations.

The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

The Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered hospitals and employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance.

The IRF's rates are determined actuarially.

The Department self insures for collision damage to Department owned vehicles because it estimates the cost of repairs will be less than the cost of insurance. No material payments for collision damage to Department owned vehicles were made in the fiscal year ended June 30, 1999.

The Department obtains up to \$200,000 per occurrence coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The Department self insures above this amount because it feels the likelihood of loss is remote. No payments for uninsured losses were made during the fiscal year ended June 30, 1999.

The Department has recorded insurance premium expenditures in the applicable programmatic expenditure.

NOTE 25. CHANGE IN FIXED ASSETS CAPITALIZATION POLICY

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

Effective July 1, 1998, the Department changed its fixed asset capitalization policy to include as capital assets only items which have a cost of \$1,000 or more and a useful life of at least two years. Prior to July 1, 1998, the Department had capitalized items with a cost of \$500 or more and a useful life of at least two years.

The effect of this change is as follows:

NOTES TO FINANCIAL STATEMENTS - YEAR ENDED JUNE 30, 1999 (CONTINUED)

	Balances, <u>June 30, 1998</u>	Change Due To Change In Capitalization <u>Policy</u>	Balances <u>July 1, 1998</u>
Land	\$ 1,692,950		\$ 1,692,950
Land Improvements	3,775,628		3,775,628
Buildings	80,217,300		80,217,300
Equipment, Fixtures and Furniture	21,360,036	\$ (1,923,505)	19,436,531
Construction in Progress	<u>1,234,524</u>	<u></u>	<u>1,234,524</u>
Total	<u>\$ 108,280,438</u>	<u>\$ (1,923,505)</u>	<u>\$ 106,356,933</u>

NOTE 26. PRIOR PERIOD ADJUSTMENT

Effective July 1, 1997, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires that the equity position of each fund that sponsors the pool to be reported as assets in those funds. The South Carolina State Treasurer provided management with incorrect fair value amounts as of June 30, 1998 and management has restated its fund balances as of July 1, 1998 to reflect the correct amounts. The changes to the general fund and the debt service fund are as follows:

	Fund Balances - June 30, 1998		
	As Previously <u>Reported</u>	Restatement <u>Adjustment</u>	As <u>Restated</u>
General Fund	\$ 23,854,598	\$ (3,766)	\$ 23,850,832
Debt Service Fund	6,876,007	(170,844)	6,705,163

For the Agency Fund, the cash and cash equivalents balance and the related liability for funds held in trust for clients were each decreased by \$38,449 as of June 30, 1998 to reflect the change resulting from the error noted above.

NOTE 27. VOLUNTARY SEPARATION PROGRAM

Proviso 11.8 of the 1998-99 Appropriations Act allowed the Department to develop and implement a staff reduction program which included separation incentive payments. The Department implemented such a program during the 1998-99 fiscal year.

Under the program, approximately 60 employees terminated employment and approximately \$1,300,000 in separation incentive payments were made. There was no material future liability for additional separation incentive payments at fiscal year end.

South Carolina Department of Disabilities and Special Needs				
Combining Balance Sheet - All Special Revenue Funds				
June 30, 1999				
	Federal Funds	Work Activities		Total
ASSETS				
Cash		\$ 103,465		\$ 103,465
Due from Grantors	\$ 174,493			174,493
Advances to Other Funds		12,500		12,500
Inventories	3,793			3,793
TOTAL ASSETS	\$ 178,286	\$ 115,965		\$ 294,251
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts Payable	\$ 77,535	\$ 6,374		\$ 83,909
Accrued Payroll and Related Benefits	3,859			3,859
Due to the General Fund of the State	463			463
Due to Other Funds	92,636			92,636
Deferred Revenue	3,793			3,793
TOTAL LIABILITIES	\$ 178,286	\$ 6,374		\$ 184,660
Fund Equity:				
Fund Balances:				
Reserved for Work Activities		\$ 109,591		\$ 109,591
TOTAL FUND EQUITY	\$ -	\$ 109,591		\$ 109,591
TOTAL LIABILITIES AND FUND EQUITY	\$ 178,286	\$ 115,965		\$ 294,251

South Carolina Department of Disabilities and Special Needs				
Combining Statement of Revenues, Expenditures				
and Changes in Fund Balances				
All Special Revenue Funds				
For the Fiscal Year Ended June 30, 1999				
	Federal Funds	Work Activities		Total
Revenues:				
Federal Grants and Reimbursements	\$ 1,205,634			\$ 1,205,634
Work Activity Centers		\$ 205,041		205,041
Total Revenues	\$ 1,205,634	\$ 205,041		\$ 1,410,675
Expenditures:				
Prevention	\$ 70,945			\$ 70,945
Mental Retardation Family Support	1,025,958			1,025,958
Autism Family Support	25,529			25,529
Head & Spinal Cord Injury				
Community Residential	31,636			31,636
Regional Centers Residential	27,527	\$ 333,535		361,062
Total Expenditures	\$ 1,181,595	\$ 333,535		\$ 1,515,130
Excess Revenues Over (Under) Expenditures	\$ 24,039	\$ (128,494)		\$ (104,455)
Other Financing Sources (Uses):				
Indirect Costs Remitted to the General Fund of the State	\$ (22,639)			\$ (22,639)
Indirect Cost Recoveries Retained for Agency Use	(1,400)			(1,400)
Total Other Financing Sources (Uses)	\$ (24,039)	\$ -		\$ (24,039)
Excess Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ -	\$ (128,494)		\$ (128,494)
Fund Balances, July 1, 1998	-	238,085		238,085
Fund Balances, June 30, 1999	\$ -	\$ 109,591		\$ 109,591

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS				
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS				
FOR THE FISCAL YEAR ENDED JUNE 30, 1999				
Federal Grantor/Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients	Contract Number
U.S. Department of Agriculture				
Direct Programs:				
Food Distribution (A), (C)	10.550	\$12,540		
School Breakfast Program (B)	10.553	37,716		
National School Lunch Program (B)	10.555	57,936		
TOTAL U.S. DEPARTMENT OF AGRICULTURE		\$108,192		
U.S. Department of Education				
Pass Through Programs:				
Special Education--Preschool Grants (S.C. State Department of Education)	84.173	\$51,214		99-CG-503
Special Education--Grants to States (S.C. State Department of Education)	84.027	142,263		99-CA-503 / 99-CR-503
TOTAL U.S. DEPARTMENT OF EDUCATION		\$193,477		
U.S. Department of Health and Human Services				
Direct Programs:				
Centers for Disease Control and Prevention -- Investigations and Technical Assistance	93.283	\$70,127	\$70,127	U85/CCU408774-05
Traumatic Brain Injury	93.234	33,198		P05 MC 00010-01 S1 R2
Pass Through Programs:				
Child Care and Development Block Grant (S.C. Department of Health and Human Services)	93.575	876,435		B80281CC / B90281CC
Disabilities Prevention (University of South Carolina)	93.184	23,550		99-488
Injury Prevention and Control Research and State and Community Based Programs (University of South Carolina)	93.136	8,847		99-493
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		\$1,012,157	\$70,127	
TOTAL FEDERAL ASSISTANCE		\$1,313,826	\$70,127	
LESS NON-CASH ASSISTANCE (A)		12,540		
TOTAL CASH ASSISTANCE		\$1,301,286	\$70,127	
Reported In:				
General Fund		95,652		
Special Revenue Fund		1,205,634	70,127	
Total All Cash Grants		\$1,301,286	\$70,127	
(A) Non-cash grants.				
(B) Reimbursement is based on a set amount per meal claimed. This amount represents expenditures in an amount equal to revenues.				
(C) Value of USDA non-cash commodities on hand at June 30, 1999 was \$3,793. During fiscal year 1999 the Department received \$15,791 and consumed \$12,540 of commodities.				
NOTE: The Department used the modified accrual basis method of accounting in preparing the above Schedule. This is the same basis of accounting used by the Department in the preparation of its financial statements.				



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the South Carolina Department of Disabilities and Special Needs (the Department) as of and for the year ended June 30, 1999 and have issued our report thereon dated March 17, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described on the accompanying schedule of findings and questioned costs as item X-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item X-1.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition reported is a material weakness.

We also noted other matters involving the internal control over financial reporting as noted on page 35.

This report is intended for the information of the Commission members and management of the South Carolina Department of Disabilities and Special Needs, federal awarding and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Roger A. Lalam, PA

Columbia, South Carolina
March 17, 2000



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the South Carolina Department of Disabilities and Special Needs (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1999. The Department's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

As described in item X-2 in the accompanying schedule of findings and questioned costs, the Department did not comply with a requirement regarding reporting that is applicable to its Child Care and Development Block Grant. Compliance with such requirements is necessary, in our opinion, for the Department to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999.



requirements is necessary, in our opinion, for the Department to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item X-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the item noted is a material weakness.

This report is intended for the information of the Commission members and management of the South Carolina Department of Disabilities and Special Needs, federal awarding and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Roger A. Lalan, PA

Columbia, South Carolina
March 17, 2000

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 1999

SUMMARY OF AUDITORS' RESULTS

1. An unqualified opinion dated March 17, 2000 on the financial statements of the Department for the year ended June 30, 1999 was issued.
2. One reportable conditions in internal control over financial reporting was disclosed during the audit of the financial statements. The condition is a material weakness.
3. One reportable condition disclosed during the audit of the major federal award program is reported below. This condition is reported as a material weakness.
4. No instances of noncompliance that were material to the financial statements were noted during the audit.
5. A qualified opinion on compliance for its major program dated March 17, 2000 was issued.
6. One reportable condition in internal control over compliance relative to the major federal award program for the Department is reported below as required by Section .510(a) of OMB A-133. This condition is considered a material weakness.
7. The major program of the Department is the Child Care and Development Block Grant (CFDA 93.575).
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The Department was determined to be a low risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

X-1 DUE FROM GENERAL FUND OF THE STATE AND REVENUE UNDERSTATED

The Department records an entry at the end of each fiscal year to record a receivable from the General Fund of the State for the state funded portion of the accrued payroll and related benefits. The Department reversed the fiscal year 1998 benefits portion of the accrual twice resulting in a understatement of the receivable and state appropriations revenue of approximately \$600,000. An adjustment to the financial statements was made to correct this error.

We recommend that additional care be taken in the preparation of journal entries and that account balances be reviewed after the posting to ensure their reasonableness.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

X-2. DEPARTMENT OF HEALTH AND HUMAN SERVICES – CHILD CARE AND DEVELOPMENT BLOCK GRANT – CFDA # 93.575

Statement of Condition: The Department claimed and was reimbursed \$23,540 more in costs than was actually incurred based on the Department's general ledger for the grant period October 1, 1998 through September 30, 1999. Due to the overreimbursement, the Department also received \$494 in excess indirect cost reimbursements.

Criteria: Good controls require that all claims for reimbursement be prepared from and agreed to the Department's general ledger.

Effect of Condition: Costs claimed in excess of actual costs incurred.

Cause of Condition: Reimbursement claims and the annual report filed in November, 1999 were not agreed to the Department's general ledger.

Recommendation: The Department should agree each reimbursement request to the general ledger and also the annual report. The Department should also refund the \$24,034 in excess reimbursement.

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

MANAGEMENT LETTER COMMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1999

EMPLOYEE PROFILE SHEETS INCORRECT

The employee profile sheets for 6 out of 25 employees tested during our test of accrued annual leave balances reflected a different number of annual hours than was used in the actual calculation of accrued annual leave. The number of hours used in the calculation of accrued annual leave was correct and the number of hours shown on the employee profile was incorrect.

The documents in the employee's personnel file should reflect the correct information. We recommend that the Department review and update all incorrect employee profile sheets.

NO DOCUMENTATION OF REVIEW OF BANK RECONCILIATIONS

The Department's policy is to maintain a control sheet documenting the review of various bank reconciliations. 14 out of 17 bank reconciliations that we reviewed for November, 1998 did not show any evidence of review and the Department stopped maintaining the control sheet during the year.

Good internal controls requires a review process of the bank reconciliations. We recommend that the Department require the preparer and reviewer to initial and date the bank reconciliations to document these processes.

AGENCY FUND CHECKS PREPARED IN ADVANCE

Our audit of the client bank account for one of the centers disclosed that the Department was preparing checks in advance of when they were actually needed. Approximately \$9,900 out of \$21,800 in outstanding checks as of June 30, 1999 cleared the bank in the subsequent month. One outstanding check for \$4,349 was voided in July and seven outstanding checks for approximately \$1,700 were voided in August. The center is preparing checks and then voiding them if they are not used within 90 days.

We recommend that the Department only prepare checks as they are needed to purchase items for the client's needs.

DEPARTMENT UNABLE TO LOCATE VOUCHERS FOR TESTING

In performing tests during various portions of our audit, we requested that the Department pull vouchers supporting payments of various expenditures. Initially, the Department could not locate 19 out of 57 requested vouchers. The Department finally located all but one voucher. The Department's policy is that a sign off form is to be completed and placed in the file at the time a voucher is pulled. Department personnel are apparently not following this policy.

We recommend that the Department enforce this policy to ensure that all vouchers can be located.

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

MANAGEMENT RESPONSE FOR THE FISCAL YEAR ENDED JUNE 30, 1999

DUE FROM THE GENERAL FUND OF THE STATE AND REVENUE UNDERSTATED

The error was discovered and corrected prior to the finalization of the financial statements. In the future, additional care will be taken in the review of journal entries and draft financial statements.

DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD CARE AND DEVELOPMENT BLOCK GRANT - CFDA #93.575

The Department identified this error prior to the audit. The Department has agreed with the grantor agency on the actions necessary to correct the error.

In the future, monthly reconciliations will verify that reimbursements do not exceed expenditures.

EMPLOYEE PROFILE SHEETS INCORRECT

Corrections to the employee profile sheets have been scheduled to be made through special programming. This programming will be completed during the 1999-2000 fiscal year.

NO DOCUMENTATION OF REVIEW OF BANK RECONCILIATIONS

All reconciliations will be signed and dated by both the preparer and the reviewer. Additionally, the control sheet of all required reconciliations will be reestablished to ensure that all reconciliations are done in a timely manner.

AGENCY FUND CHECKS PREPARED IN ADVANCE

The Department will instruct its center to discontinue its practice of issuing checks prior to the time they are actually needed. Also, the Department will review the outstanding items on the monthly reconciliations to make sure that checks are not being issued and held for lengthy periods.

DEPARTMENT UNABLE TO LOCATE VOUCHERS FOR TESTING

All vouchers but one were located. The Department will periodically review its files to make sure paid vouchers are present or are properly signed out. The Department will reiterate to Central Office employees its requirement that vouchers removed from the files be signed out.