

South Carolina Department of Disabilities and Special Needs

Independent Accountants' Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2005*

*State of South Carolina*



*Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

June 30, 2006

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

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Disabilities and Special Needs for the fiscal year ended June 30, 2005, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

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

RHGjr/cwc

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Independent Accountants' Report on Applying Agreed-Upon Procedures

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Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Disabilities and Special Needs (the "Agency") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the accounting records of the Agency for the fiscal year ended June 30, 2005, in the areas addressed. The Agency's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

**1. Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

## **2. Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Agency, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

## **3. Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment and tested internal controls over these transactions.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures to those of the prior year; and compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

#### **4. Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

#### **5. General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger, and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

#### **6. Reconciliations**

- We obtained all purported monthly reconciliations prepared by the Agency for the year ended June 30, 2005, and inspected selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amount to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

#### **7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of Agency personnel and or observation of Agency personnel performing their assigned duties, the Agency's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2005.

We found no exceptions as a result of the procedures.

## **8. Closing Packages**

- We obtained copies of all purported closing packages as of and for the year ended June 30, 2005, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

## **9. Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2005, prepared by the Agency and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Sections A in the Accountants' Comments section of this report.

## **10. Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from our engagement for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section B in the Accountants' Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, the Board of Trustees, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
June 23, 2006

## Accountants' Comments

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

The procedures agreed to by the Agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were in place. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described below have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

#### Cash and Investments Closing Package does not Agree to General Ledger

While testing the Cash and Investments Closing Package, we noted that the amounts shown on the Closing Package for one of the petty cash accounts did not agree with the general ledger. The closing package reflected \$50 more than the general ledger.

We recommend that the Agency implement policies and procedures to ensure that amounts denoted on closing packages are in agreement with amounts noted in the general ledger.

#### Improper Completion of Forms Included in the Schedule of Federal Financial Assistance Packet

During our testing of the Schedule of Federal Financial Assistance (“SFFA”), we noted differences in amounts reported on the SFFA and Attachment 4 to the SFFA. These items are as follows:

1. The pass through amount from the University of South Carolina (“USC”) for the Catalog of Federal Domestic Assistance (“CFDA”) number 93.184 states \$22,901 was received while Attachment 4 to the SFFA states \$28,801. This is a noted difference of \$5,900.
2. The pass through amount from USC for the CFDA number 93.184 states \$23,899 was expended while Attachment 4 to the SFFA states \$28,801 was expended. This is a noted difference of \$4,902.
3. Attachment 4 to the SFFA states that funds were received and expended under CFDA number 93.630 of \$54,176 while the SFFA states \$0 was received and expended.

We recommend the Agency evaluate their policies and procedures for the preparation of the SFFA in order to ensure that the information is in agreement prior to providing to other parties.

### **Improper Documentation of Terminated Employee Hours**

In testing employee terminations, we noted that Management could not produce evidence to support the final pay for one terminated employee. The employee was paid for approximately 33 hours on their final pay check; however, management could not produce evidence supporting these hours.

We recommend that the Agency review all personnel files in order to ensure that the files are up to date and accurate. In addition, we recommend that the Agency perform independent verification of final pay for each terminated employee. Evidence of this verification and supporting documentation should be maintained.

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

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountants' Comments Section of the Independent Accountants' Report on applying agreed upon procedures for the fiscal year ended June 30, 2004, and dated May 20, 2005. The following is the status of each prior year finding:

<b><u>Prior Year Finding</u></b>	<b><u>Status</u></b>
Untimely Deposits of Receipts	Corrective Action Taken
Cash and Investments closing package	Similar finding in Section A of current year report
Miscellaneous Accounts Receivable and Related Closing Package	Corrective Action Taken
Payroll Disbursement and Expenditures Terminated Employees	Similar finding in Section A of current year report
Payroll Disbursement and Expenditures Personnel file documentation	Corrective Action Taken

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



**Department  
OF  
Disabilities  
AND  
Special Needs**

3440 Harden Street Ext (29203)  
PO Box 4706, Columbia, South Carolina 29240  
**V/TTY: 803/898-9600, FAX: 803/898-9653**  
**Toll Free: 888/DSN-INFO**  
**Home Page: [www.state.sc.us/ddsn/](http://www.state.sc.us/ddsn/)**

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**W. Robert Harrell**  
**Edythe C. Dove**  
**John C. Vaughn**

June 29, 2006

Mr. Richard H. Gilbert, Jr.  
Deputy State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Gilbert:

The South Carolina Department of Disabilities and Special Needs submits the following corrective action plan for the fiscal year ended June 30, 2005:

**Section A — Material Weakness and/or violations of State Laws, Rules, or Regulations**

**Cash and Investments closing Package does not Agree to General Ledger**

The closing package reflected \$50 more than the General Ledger in Petty Cash.  
Recommendation: ...that the agency implement policies and procedures to ensure that amounts denoted on closing packages are in agreement with amounts noted in the general ledger.

Action Taken: General Ledger will no longer wait until closing of prior year to post closing entries. When preparing closing packages and accounts have been reconciled, closing entries will be posted to the general ledger and a GFR405, prior year general ledger will be attached to the work papers reflecting balances which tie to the closing packages.

**Improper Completion of Forms Included in the Schedule of Federal Financial Assistance Packet**

Attachment 4 of the Schedule of Federal Expenditures overstated expenditures by a sum of \$64,978 on three CFDA numbers.

Recommendation: ...the Agency evaluate their policies and procedures for the preparation of the SFFA in order to ensure that the information is in agreement prior to providing to other parties.

**DISTRICT I**

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

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

**DISTRICT II**

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

Coastal Center - Phone: 843/873-5750  
Pee Dee Center - Phone: 843/664-2600  
Saleeby Center - Phone: 843/332-4104

Mr. Richard H. Gilbert, Jr., Deputy State Auditor  
June 29, 2006  
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Action Taken: The Agency is implementing a check list/reconciliation to ensure the amounts reflected on the attachments to the Schedule of Federal Expenditures have been verified with the schedule. The check list/reconciliation must be signed by the reviewer.

Improper Documentation of Terminated Employee Hours

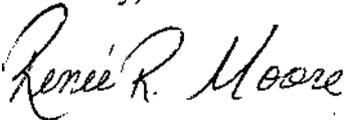
Supporting documentation of final pay calculation was not in the file.

Recommendation: ....the Agency review all personnel files in order to ensure that the files are up to date and accurate. In addition, we recommend that the Agency perform independent verification of final pay for each terminated employee. Evidence of this verification and supporting documentation should be maintained.

Action Taken: Personnel will design a form to be used by Central Office and the four Regional Offices in conjunction with the P40 Personnel Action Form. This new form will reflect final pay calculations for terminated employees. The form will be signed by the preparer and verified by the Human Resources Director.

For questions concerning this corrective action plan, please contact me at (803) 898-9698 or Michael Thom of General Ledger Control at (803) 898-9736.

Sincerely,

A handwritten signature in cursive script that reads "Renee R. Moore".

Renee R. Moore, CPA  
Director of Finance