

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 19, 2009

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

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Disabilities and Special Needs (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2008, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$36,300 – general fund, \$536,500 – earmarked fund, \$10,200 – restricted fund, and \$7,400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Deposits and Accounting and Reporting of Federal Activity in the Accountant's Comments section of this report.

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

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$409,400 – general fund, \$529,300 – earmarked fund, \$10,700 – restricted fund, and \$7,800 – federal fund) and ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$409,400 – general fund, \$529,300 – earmarked fund, \$10,700 – restricted fund, and \$7,800 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

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 Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

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

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of these procedures is presented in Blanket Bond Approval in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Object Codes and Closing Packages in the Accountant's 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, 2008, prepared by the Department 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 agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Accounting and Reporting of Federal Activity in the Accountant's Comments section of this report.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department of Disabilities and Special Needs resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Department had taken corrective action.

Our findings as a result of these procedures are presented in Deposits, Accounting and Reporting of Federal Activity, and Closing Packages in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Members of the Disabilities and Special Needs Commission
South Carolina Department of Disabilities and Special Needs
May 19, 2009

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

This report is intended solely for the information and use of the Governor and of the governing body and management of the South Carolina Department of Disabilities and Special Needs and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

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

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

DEPOSITS

During our tests of cash receipts and revenue cut-off, we identified three receipt input documents which contained receipts that were not deposited in a timely manner.

General Proviso 72.1 of the fiscal year 2008 Appropriations Act requires that all general State revenues derived from taxation, licenses, fees, or from any other sources whatsoever, be remitted to the State Treasurer at least once each week, when practical. Additionally, the Department's Finance Manual, Cash Receipting and Depositing Procedures 3.21 states that all money must be deposited within five working days of being received.

We recommend that the Department review and strengthen its procedures to ensure that receipts are deposited timely in accordance with State law and Department policy.

ACCOUNTING AND REPORTING OF FEDERAL ACTIVITY

We tested the Department's fiscal year 2008 schedule of federal financial assistance (SFFA) and noted the following errors:

- The Department omitted a grant title on the SFFA.
- The SFFA identified certain federal programs (Food Donation, School Breakfast Program, and National School Lunch Program) that were not included on the Comptroller General's CSA 467 Report which summarizes all activity within the federal subfund 5XXX. This discrepancy occurred because the Department recorded activity related to these federal programs to subfund 3XXX rather than to subfund 5XXX as required by the Comptroller General's Office.

The State Auditor's Office provides a letter of instruction to each State agency for the proper completion of the SFFA. In addition, the STARS Manual describes the federal fund as follows:

- Accounts for financial transactions associated with funds received from the federal government, either directly or as an allocation from another agency.
- Federal subfund numbers are in the 5XXX series (e.g. 5055).

We recommend that the Department ensure that the SFFA is prepared and independently reviewed by staff that is knowledgeable of the requirements of the State Auditor's Letter of Instructions and STARS Manual requirements. Additionally, we recommend that the Department implement procedures to strengthen the review process for detecting errors on its SFFA. Further, the Department should prepare STARS correcting entries to ensure that grant activity is properly reflected in the CSA 467 report.

BLANKET BOND APPROVAL

South Carolina Code of Laws Section 1-11-180 states that the Budget and Control Board may approve blanket bonds for a State department, agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General. The Budget and Control Board has delegated its responsibility to the State Auditor.

In our review of the Department's compliance with this law, we noted that the Department did not obtain Attorney General and State Auditor approval for its employee blanket bond.

We recommend that the Department comply with the South Carolina Code of Laws Section 1-11-180 and obtain approvals for its blanket bond from the Attorney General and State Auditor as required.

OBJECT CODES

During our review of the Capital Assets Additions Reconciliation, we noted the Department recorded a \$20 book purchase using object code 0618 – Library Books, Maps, and Films (Capitalized). Because the purchase did not meet the Department’s capitalization threshold, the Department should have recorded the transaction using object code 5018 - Library Books, Maps, and Films (Non-Capitalized).

Reference 3.8 of the Comptroller General’s GAAP Closing Procedures Manual states “Short-lived assets and those costing small amounts are not capital assets.” Also, the Comptroller General’s STARS Manual provides object code definitions for the proper classification of transactions.

We recommend that Department personnel responsible for assigning object codes to transactions be knowledgeable regarding STARS classification definitions and State capitalization criteria.

CLOSING PACKAGES

Introduction

The Office of the Comptroller General (OCG) obtains certain generally accepted accounting principles (GAAP) data for the State’s financial statements from agency prepared closing packages because the State’s accounting system (STARS) is on a budgetary basis. To accurately report the Department’s and the State’s assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Section 1.7 of the Comptroller General’s GAAP Closing Procedures Manual (GAAP Manual) states that “The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State’s financial statements. The existence of even “small” errors tends to cast doubt on the State internal control structure’s ability to detect and

correct errors. All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. An adequate internal control system includes safeguards to ensure that your agency detects and corrects its own closing package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's system of internal control could be stronger.” Section 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. In addition, Section 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form. The following outlines the errors noted on certain 2008 closing packages:

Litigation Closing Package

GAAP Manual Section 3.13 requires agencies to complete a Litigation Overview Form “For all actual and threatened litigation cases that were pending for your agency at June 30, all that have arisen since June 30, any others that were reported last year on a Litigation Contingency Report Form, and for payments made to private attorneys during the current fiscal year.”

We determined that the Department did not report on the Litigation Overview Form two cases that were reported on the Litigation Contingency Report Form in the prior year.

We recommend that the Department complete a Litigation Overview Form for cases that meet the GAAP Manual criteria described above.

Capital Assets Additions Reconciliation

The Department reported on the Capital Assets Additions Reconciliation form capitalized contract retentions of \$32,030 and non-capitalized contract retentions of \$61,549. We determined that the reported amounts did not agree to supporting documentation. It appears that the person preparing the form transposed contract retention amounts and the errors were not detected by the reviewer. In addition, the Department reported contract retentions payable of \$17,826 on line B.1. of the reconciliation. However, this line should only include accounts payable for capitalizable equipment and capital outlays. Contract retentions payable should be included as an addition only in the year that a new retention payable is incurred.

The GAAP Manual Section 3.10 requires that capitalized contract retentions and non-capitalized contract retentions be reported separately because they have different GAAP fund codes. Also, instructions for line B.1. of the reconciliation state “Note: Do not include contract retention amounts here.”

We recommend that the Department’s personnel responsible for preparing and reviewing the Capital Assets Additions Reconciliation be knowledgeable of the GAAP Manual instructions and trace amounts to supporting documentation to ensure that they are reported on the appropriate lines.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2007, and dated March 19, 2008. We determined that the Department has taken adequate corrective action on each of the findings, except we have repeated Deposits, Closing Packages, and Accounting and Reporting of Federal Activity.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

MANAGEMENT'S RESPONSE FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Deposits

Finding: "... identified three receipt input documents which contained receipts that were not deposited in a timely manner."

Recommendation..." the Department review and strengthen its procedures to ensure that receipts are deposited timely in accordance with State law and Department Policy."

Action Taken: The Department will review its practices to ensure all receipts are deposited timely.

Accounting and Reporting of Federal Activity

The following errors were noted:

- The Department omitted a grant title on the SFFA.
- The SFFA identified certain federal programs (Food Donation, School Breakfast Program, and National School Lunch Program) that were not included on the Comptroller General's CSA 467 Report which summarizes all activity within the federal subfund 5XXX. This discrepancy occurred because the Department recorded activity related to these federal programs to subfund 3XXX rather than to subfund 5XXX as required by the Comptroller General's Office.

Recommendation: "... the Department ensure that the SFFA is prepared and independently reviewed by staff knowledgeable of the requirements of the State Auditor's letter of instruction and STARS Manual requirements. Additionally,... that the Department implement procedures to strengthen the review process for detecting errors on the SFFA. Further the Department should prepare STARS correcting entries to ensure that grant activity is properly reflected in the CSA 467 report."

Action taken: The Department will ensure proper review of the SFFA to provide for detection of any errors and will explicitly follow the instructions promulgated by the State Auditor in regard to such. Subsequent to the close of State Fiscal Year 08, pursuant to recommendations found within the State Auditor's Report for SFY07, the Department has begun recording the transactions of the aforementioned programs in subfund 5XXX.

Blanket Bond Approval

Finding: "...the Department did not obtain Attorney General and State Auditor approval for its employee blanket bond."

Recommendation: "... the Department comply with the South Carolina Code of Laws Section 1-11-180 and obtain approvals for its blanket bond from the Attorney General and State Auditor as required

Action Taken: The Department will review procedures to ensure that the provisions of Code of Laws Section 1-11-180 are complied with and the appropriate approvals are received.

Object Codes

Finding: "...the Department recorded a \$20 book purchase using object code 0618 – Library Books, Maps and Films (Capitalized)...the Department should have recorded the transaction using object code 5018 – Library Books, Maps, and Films (Non-Capitalized)."

Recommendation: "Department personnel responsible for assigning object codes to transactions be knowledgeable regarding STARS classification definitions and State capitalization criteria."

Action Taken: The Department will take all caution to ensure proper object codes are assigned to transactions in accordance with STARS classification definitions and State capitalization criteria.

Litigation Closing Package

Finding: "...the Department did not report on the Litigation Overview Form two cases that were reported on the Litigation Contingency Report Form in the prior year."

Recommendation...that the Department complete a Litigation Overview Form for cases that meet the GAAP Manual criteria...

Action Taken: The Department will review procedures to ensure compliance with Closing Package instructions and the GAAP Manual criteria referred to above.

Capital Assets Additions Reconciliation

The following findings were noted:

- \$32,030 Capitalized contract retentions transposed with \$61,549 Non-Capitalized contract retentions.
- Contract retentions payable of \$17,826 improperly recorded as accounts payable for capitalizable equipment and capital outlays on line B.1. of the reconciliation

Recommendation: "...the Department's personnel responsible for preparing and reviewing the Capital Assets Additions Reconciliation be knowledgeable of the GAAP Manual instructions and trace amounts to supporting documentation to ensure that they are reported on the appropriate lines.

Action Taken: The Department will review procedures to ensure adequate supervisory review of closing package workpapers sufficient enough to ensure compliance with Closing Package instructions and GAAP Manual criteria.

4 copies of this document were published at an estimated printing cost of \$1.58 each, and a total printing cost of \$6.32. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.