

**SOUTH CAROLINA  
DEPARTMENT OF SOCIAL SERVICES  
COLUMBIA, SOUTH CAROLINA  
INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES  
JUNE 30, 2005**

# State of South Carolina



## Office of the State Auditor

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June 9, 2006

The Honorable Mark Sanford, Governor  
and  
Ms. Kim S. Aydlette, J.D., State Director  
South Carolina Department of Social Services  
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Social Services for the fiscal year ended June 30, 2005, 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,

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/trb

**SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES  
COLUMBIA, SOUTH CAROLINA**

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

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

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and the management of the South Carolina Department of Social Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2005, in the areas addressed. The Department is responsible for its financial records, internal controls and compliance with State laws and regulations. The agreed-upon procedures engagement was conducted in accordance with attestations standards established by the American Institute of Certified Public Accountants. The sufficiency of the 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 Department's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues from sources other than State General Fund appropriations with those of the prior year and 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 Department; 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.



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- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of the procedures is presented in the Accountant's Comments section of this report.

### **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 tested payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine that the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate to detect errors and/or irregularities.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of the procedures is presented in the Accountant's 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 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 the internal accounting controls over the selected transactions were adequate to detect errors and/or irregularities.

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, 2005, and inspected selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Department'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 amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined that 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. 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 Department'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 closing packages as of and for the year ended June 30, 2005, 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; 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 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, 2005 prepared by the Department and submitted to the State Auditor. We inspected it to determine that 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.

We found no exceptions as a result of the procedures.

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

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

Certain findings had not been corrected as detailed in the Status of Prior Findings 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 opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

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

*Rogers + Laban, PA*

May 31, 2006

**SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES  
COLUMBIA, SOUTH CAROLINA**

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2005**

**CLOSING PACKAGES**

**Accounts Payable:**

Our testing of the accounts payable closing package disclosed the following errors:

1. The closing package included a payable for \$6,911,858 that was also included in the Grants Disallowance closing package. The \$6,911,858 should not have been included in accounts payable.
2. One invoice in the amount of \$65,345 was included in accounts payable twice.
3. Two invoices totaling \$33,950 that were paid subsequent to year-end and should have been included in accounts payable were omitted from the closing package. This was out of twenty five vouchers reviewed .
4. The accounts payable closing package included numerous funds for which no accounts payable were reported.

Section 3.12 of the GAAP Closing Procedures Manual states that the agency should complete an Accounts Payable Summary Form – Zero Balances for any fund that has no account payable vouchers in excess of \$1,000. This section of the GAAP Closing Procedures Manual also contains the definitions of accounts payable that should be included in the closing package.

We recommend that the Department implement procedures to ensure that the accounts payable closing package is accurately prepared in accordance with the instructions contained in the GAAP Closing Procedures Manual.

**Operating Leases Liability:**

During out testing of operating leases, we noted errors on 2 of the 13 leases tested. One lease register properly reflected the lease term of 51 months but showed a beginning date of November 1, 2004 and an ending date of November 1, 2008, a period of 48 months. The schedule of future minimum lease payments only reflected the 48 months. A second lease register reflected a lease term of 48 months and showed a beginning date of August 15, 2002 and an ending date of July 15, 2006, a period of 48 months. This second lease was a 51-month lease so the future minimum lease payments were understated.

Similar findings were cited in the 2004 report on applying agreed-upon procedures.

In addition, we noted that the Department did not include a new three-year computer lease in the closing package. Total commitments under this new lease are approximately \$6,000,000.

Section 3.19 of the GAAP Closing Procedures Manual states that the agency must retain a fully completed lease register for each of its leases and that the agency complete the lease register form at the inception of each lease before making the first payment to help ensure that the lease is properly classified as capital or operating. Section 1.7 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.



We recommend that at the beginning of each lease that the agency correctly fill out a lease register and that a responsible supervisor review it to ensure all required information is entered correctly and that the lease is properly classified as an operating or capital lease. Furthermore, the employee performing the independent review of the lease closing package should agree information on the closing package to properly completed lease registers, other supporting documentation and the accounting records.

### **Compensated Absences:**

Our testing of compensated absences disclosed differences in the amount of leave accrued as of June 30, 2005 for two of the ten employees tested which caused the accrued compensated absences liability to be overstated. In one instance, the employee used four hours of sick leave prior to June 30 in excess of the amount available and the Department adjusted the amount of accrued compensated absences subsequent to June 30. The other difference resulted because the Department did not post 7.5 hours of leave used on June 3 prior to the liability report as of June 30 being run.

Section 3.17 of the GAAP Closing Procedures Manual requires state agencies to keep all the supporting documentation for the schedule for compensated absences that includes the accumulated accrued unused annual leave earned by its employees which is the actual annual leave balance in the Department's records for each employee at June 30.

We recommend that the Department ensure that all adjustments are posted to the leave records before the leave liability report as of each June 30<sup>th</sup> is run.

### **Cash and Investments:**

Our review of the cash and investments closing package disclosed that the Department has reported approximately \$237,000 of stocks and bonds owned as cash instead of as investments. In addition, the Department included \$489 of accrued income as cash on the closing package.

Section 3.1 of the GAAP Closing Procedures Manual contains the definitions of cash and investments and the reporting requirements.

We recommend that the Department ensure that all cash and investments are properly classified in the closing package.

### **Interfund Payables:**

Our review of the interfund payables closing package disclosed that interfund payables were overstated by \$52,361 due to the improper inclusion of five vouchers which was for goods or services received after June 30, 2005. In addition, one grant reimbursement request totaling \$15,885 for the month of June was omitted from the closing package.

The comment regarding overstated interfund payables was also cited in the Accountant's Comments section of the report for the year ended June 30, 2004.

Section 3.18 of the GAAP Closing Procedures Manual defines an interfund payable at June 30<sup>th</sup> as amounts owed for goods or services that are received on or before June 30 and paid for after June 30<sup>th</sup>. In addition, Section 1.7 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.

We recommend additional care be exercised in preparing the interfund payables schedule and in performing the supervisory review of the listing and the related documentation that supports the interfund payables closing package as of each year-end.

## **PAYROLL EXPENDITURES**

Our test of twenty-five payroll disbursements revealed the following:

1. Two employees did not have updated documentation in their files that agreed with the funding source being charged.
2. One employee's file did not contain an Employment Eligibility Verification form (I-9) or W-4 form.
3. One employee's files did not contain original documentation supporting voluntary deductions being deducted from their paychecks.

Good internal controls require that procedures be in place to ensure all required documentation is maintained in the employee's files. Federal laws and regulations require that the Department obtain I-9's and W-4's on all employees when they are hired.

We recommend that procedures be put in place to ensure all required documentation is in the employee files.

## **NON-PAYROLL DISBURSEMENTS**

Our testing of 77 disbursements disclosed that one voucher paid from the child care subsystem was not approved.

The Department's policy required the approval of all invoices paid under the child care subsystem.

We recommend that the Department ensure that all invoices contain the required approval signature before they are paid.

**SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES  
COLUMBIA, SOUTH CAROLINA**

**STATUS OF PRIOR FINDINGS  
JUNE 30, 2005**

During the current engagement, we reviewed the status of the corrective action plan taken on each of the findings reported in the Accountant's Comments section of the our report for the fiscal year ended June 30, 2004, dated May 31, 2005. We determined that the Department has taken adequate corrective action on each of the findings except for the following:

- Operating Lease Closing Package
- Interfund Payables Closing Package

# **MANAGEMENT'S RESPONSE**

## **ATTACHMENT A**





### **CLOSING PACKAGES – ACCOUNTS PAYABLE**

The Department agrees with all the findings. Closer attention will be made to the instructions, assuring that the Accounts Payable and Grants Disallowance have no duplicates, and reviewing invoice details to include or exclude all applicable ones.

### **CLOSING PACKAGES – OPERATING LEASES LIABILITY**

The Department agrees that the Dell computer lease should have been included in the lease registers. Additional review will be made to ensure all operating leases are included. Additional review will also be made to ensure correct terms and calculations.

### **CLOSING PACKAGES – COMPENSATED ABSENCES**

The Department was in the process of changing the leave system from a main frame system utilizing paper leave requests to the automated system available from the Budget and Control Board. There was a learning period and transition period which may have contributed to the late leave actions. The agency will continue to remind managers and employees about the importance of timely and accurate submission of leave requests.

### **CLOSING PACKAGES – CASH AND INVESTMENTS**

The Department concurs that the NBSC bank statement for the “Zebley children” contains some stock and bond investments, as well as some accrued income. Subsequent closings packages will show the correct classifications.

### **CLOSING PACKAGES – INTERFUND PAYABLES**

Once again, we concur with the finding that a number of invoices were inappropriately included for services rendered after June 30, 2004. Additional review will be made, as well as stressing more accuracy.

## **PAYROLL EXPENDITURES**

The Department will continue to work toward improving accuracy pertaining to funding sources. However, there are times when mass downloads are conducted to change funding information and individual documents are not generated for the personnel files. We will attempt to ensure that information in the various systems and personnel files are correct. With respect to the I-9, W-4, and voluntary deductions supporting documentation, all involved employees who were transferred from another state agency. For payroll purposes, these employees' information was transferred electronically to avoid unnecessary keying and error liability. For future transfers between state agencies, the Department will attempt to obtain all necessary supporting documentation.

## **NON-PAYROLL DISBURSEMENTS**

The Department agrees with the finding and will ensure approvals are made on all invoices prior to processing for payment.