

**SOUTH CAROLINA
DEPARTMENT OF ALCOHOL
AND OTHER DRUG ABUSE SERVICES**

COLUMBIA, SOUTH CAROLINA

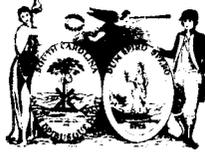
STATE AUDITOR'S REPORT

JUNE 30, 2001

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 29, 2002

The Honorable Jim Hodges, Governor
and
Mr. Wendell Price, Interim Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Alcohol and Other Drug Abuse Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2001, 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 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.

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2. We tested 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, 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 tested disbursement transactions were adequate. We also tested 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 on 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing 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 for testing were chosen randomly. Our finding as a result of these procedures is presented in Pay at Termination of Employment in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and interagency 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. The individual journal entry transactions selected for testing were chosen judgmentally to include large, routine, and unusual transactions. Our finding as a result of these procedures is presented in Transfers in the Accountant's Comments section of this report.

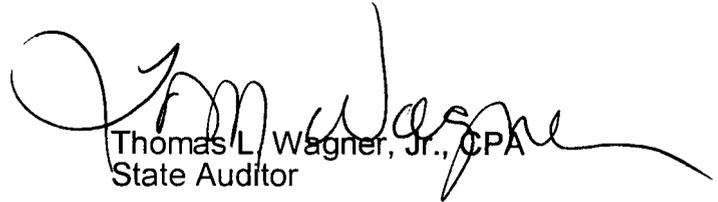
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5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2001, and tested 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 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 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 for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested 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 2001. Our finding as a result of these procedures is presented in Pay at Termination of Employment in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in GAAP Closing Packages in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the Department and submitted to the State Comptroller General. We reviewed 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 GAAP Closing Packages in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2001, prepared by the Department and submitted to the State Auditor. We reviewed 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. We found no exceptions as a result of the procedures.

The Honorable Jim Hodges, Governor
and
Mr. Wendell Price, Interim Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
August 29, 2002

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

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Department of Alcohol and Other Drug Abuse Services and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES 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 adequate. 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 or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

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

RECONCILIATIONS

The Department performed monthly reconciliations of revenues, expenditures, and ending cash balances in its internal accounting system to those in the State's system (STARS) for fiscal year 2001. However, during our review of those reconciliations, we noted that many of the reconciliations were not performed in a timely manner as noted below:

	<u>Reconciliation Month</u>	<u>Preparation Month</u>
Revenues:	July 2000	March 2001
	August 2000	March 2001
	September 2000	March 2001
	October 2000	April 2001
	November 2000	April 2001
	December 2000	May 2001
	January 2001	
	through May 2001	July 2001
	July 2001 (FM13)	September 2001
Expenditures:	July 2000	March 2001
	August 2000	April 2001
	September 2000	April 2001
	October 2000	
	through May 2001	July 2001
	July 2001 (FM13)	September 2001
Cash Balances:	July 2000	May 2001
	August 2000	May 2001
	September 2000	May 2001
	October 2000	June 2001
	November 2000	June 2001
	December 2000	
	through May 2001	July 2001
	July 2001 (FM13)	September 2001

Management indicated that the reconciliations were not performed in a timely manner because of a shortage in staff and because a higher priority was placed on other accounting activities.

The Department also did not reconcile revenue at the subfund and object code level of detail; revenues were only reconciled at the subfund level. Consequently, total recorded revenues in STARS and in the Department's accounting system agreed; however, there were several large, unexplained variances identified at the subfund and object code level of detail as noted below:

<u>Subfund</u>	<u>Object Code</u>	<u>Amount Recorded in STARS</u>	<u>Amount Recorded on the Department's Books</u>	<u>Net Difference</u>
3037	2805	\$ 313,559.37	\$184,975.06	\$ 128,584.31
3037	3901	\$ -	\$ 50,912.41	\$ (50,912.41)
3037	3902	\$ 773,271.80	\$850,943.70	\$ (77,671.90)
3757	3901	\$1,476,476.99	\$922,461.96	\$ 554,015.03
3757	7503	\$ (602,580.91)	\$ (48,565.88)	\$(554,015.03)

We also compared fiscal year 2001 revenues recorded in STARS to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. Departmental personnel were unable to provide adequate explanations for the significant revenue variances in the following accounts:

<u>Subfund</u>	<u>Object Code</u>	<u>Fiscal Year 2001 Amount</u>	<u>Fiscal Year 2000 Amount</u>	<u>Net Change</u>
3037	2805	\$ 313,559.37	\$448,403.12	\$(134,843.75)
3037	3902	\$ 773,271.80	\$367,088.94	\$ 406,182.86
3757	3901	\$1,476,476.99	\$819,863.38	\$ 656,613.61
3757	7503	\$ (602,580.91)	\$147,808.33	\$(750,389.24)

Again, this appears to be the result of weaknesses in the Department's reconciliation policies and procedures.

Section 2.1.7.20C. of the Comptroller General's Policies and Procedures (STARS Manual) requires that all agencies perform regular monthly reconciliations of revenues, expenditures, and ending cash balances between their accounting records and those in STARS balances as shown on STARS reports in order to timely detect and correct errors. These reconciliations must be performed at least monthly on a timely basis, be documented in

writing in an easily understandable format with all supporting working papers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Also, the reconciliations must be performed at the fund and object code level of detail. Furthermore, the STARS Manual states that errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or STARS as appropriate.

We recommend that the Department develop and implement procedures to ensure that all required reconciliations are prepared and reviewed in accordance with State policy; that all reconciling items are identified; and that all errors detected in the Department's balances and/or STARS through the reconciliation process are promptly corrected.

TRANSFERS

The Department's general ledger did not contain a complete record of all fiscal year 2001 transactions because the Department did not record one of its interagency appropriation transfers and twelve of its operating transfers between subfunds. Because the Department did not perform monthly reconciliations of its accounting records to STARS in a timely manner as noted above in Reconciliations, the Department was not aware that these transactions had not been recorded on its books until it performed the July 2000 and December 2000 cash balances reconciliations in May 2001 and July 2001, respectively. Accounting personnel did not record the transactions in its general ledger because it was near the end of the fiscal year.

Good business practices and a system of effective internal controls require maintenance of a general ledger and accounting system which includes all accounts and transactions and provides complete, accurate, and timely information for budgetary and financial decision-making. Furthermore, generally accepted accounting principles (GAAP) require transactions to be properly recorded for financial statement presentation. We recommend that the Department record all transactions in its general ledger.

GAAP CLOSING PACKAGES

Introduction

The State Comptroller General 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 the budgetary basis. We determined that the Department submitted to the Office of the Comptroller General (OCG) certain incorrectly prepared and/or misstated fiscal year-end 2001 closing packages.

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 1.8 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that "Each agency's executive director and finance director are responsible for submitting ... closing package forms ... that are: •Accurate and completed in accordance with instructions. •Complete. •Timely." Also, Section 1.8 requires an effective, independent supervisory review of each completed closing package and the underlying workpapers and accounting records and completion of the reviewer checklist and lists the minimum review steps to be performed. It strongly suggests the Department assign the appropriate people to prepare and review closing packages. In addition, Section 1.9 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 we noted on certain 2001 closing packages.

Accounts Payable

The Department reported \$63,579 of other current expenditures as federal payables (GAAP fund 4005) as of June 30, 2001 on the accounts payable summary form. That amount includes payments totaling \$10,329 for goods and services received and paid for after June 30. Additionally, the Department did not prepare and retain documentation explaining

large differences between closing package amounts reported for fiscal year 2001 and those reported in the prior year.

Section 3.12 of the GAAP Manual states that “Payables at June 30 are amounts owed for goods and services that your agency both: • Received on or before June 30. • Paid for after June 30.” Further, a question on the “Accounts Payable Closing Package Reviewer Checklist” asks if differences between the closing package amounts reported in the current year and those reported on the prior year are either (1) small or (2) explained (as to reasons) in working papers retained for audit purposes.

Grant/Entitlement Receivables and Deferred Revenue

Federal payables are used in the calculation of grant receivables for the grant/entitlement revenues closing package. As stated above federal payables were overstated by \$10,329 which in turn caused grant receivables to be overstated by the same amount.

The Department also overstated the amount reported on the schedule of funds passed through to state entities. The Department charged \$617,055 of federal fund expenditures to object code 1770 which according to the Comptroller General’s STARS Policies and Procedures manual records “Allocations to Other State Agencies: To include distributions of funds, other than state appropriated funds, to other state agencies.” However, the Department reported \$697,377 on the schedule of grant funds passed through to other State agencies. According to our discussions with management, this amount includes \$60,322 which was charged to object code 1779 “Allocations to Entities Alcohol and Drug Prevention: To include distribution of funds other than state aid for prevention programs handled by subcontractors.” Expenditures included in object code 1779 include payments made to non-State entities. Therefore, that amount should not have been included on the schedule of grant funds passed through to other State agencies. Additionally, \$20,000 was properly included on the schedule of grant funds passed through to other State agencies. However, the expenditure was

charged to expenditure object code 1779 in error. It should have been charged to object code 1770.

Section 3.3 of the GAAP Manual states that grant/entitlement receivables at June 30 are amounts that grantors owe the State at June 30. It also defines pass-through grants as follows:

To say that grant funds were passed through means that a State agency distributed the grant funds to grant subrecipients (either State agencies or non-State organizations such as municipalities and counties). Grant funds used to pay State or non-State organizations under fee-for-service contracts (subcontracts) are **not** pass-through entities.

Further, question #7 of the Closing Package Control Checklist requires that the Department submit a schedule or other attachment showing the total by GAAP fund code for amounts passed through to State entities.

Recommendations

We recommend that the Department assign staff to prepare and review closing packages who are knowledgeable of the applicable GAAP; adequately trained in and familiar with the applicable GAAP Manual guidance and requirements; and thoroughly familiar with the applicable agency data for completion of the assigned closing package. Also, we recommend the Department implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Manual instructions. As required by the GAAP Manual, the Department's closing package procedures should include an effective independent review before submitting the forms to the OCG. Each closing package review at a minimum should include the following steps: determine the accuracy and adequacy of documentation prepared, retained, and cross-referenced to support each closing package response (monetary and other); determine the reasonableness of each closing package response; agree each response to the closing package worksheets and other supporting documentation and to the accounting and other source records; verify the methodology and

formulas used in the supporting documentation and computations in the working papers and on the closing package; and complete the applicable Closing Package Reviewer Checklist. When the Department's employees who are responsible for preparing and reviewing closing package forms do not understand the forms and/or instructions, they should contact the OCG for assistance. We also recommend the Department design and implement adequate procedures and practices to ensure that personnel responsible for assigning account numbers, expenditure object codes, and other coding on accounting documents carefully review supporting documentation and obtain the knowledge necessary to make appropriate decisions regarding funding classifications before assigning the coding.

PAY AT TERMINATION OF EMPLOYMENT

The Department incorrectly paid one of the twenty-six employees tested who terminated employment during fiscal year 2001. According to the employee's resignation letter and other documents contained in the employee's personnel file, the employee terminated employment with the Department effective December 29, 2000. However, the Department paid the employee for the January 1, 2001 holiday, resulting in an overpayment of \$132. Because the individual terminated her employment with the Department prior to January 1, 2001, the former employee was not entitled to receive holiday leave benefits.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, (the Code of Laws) states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine or imprisonment. Furthermore, good business practices require that entities establish internal control procedures to ensure a comprehensive review of final pay by a responsible employee other than the preparer.

We recommend that the Department adhere to all State personnel and payroll laws and regulations including those covering employee pay at termination. We also recommend the Department pursue recovery from the former employee of the amount overpaid. When collected, refunds of prior year budgetary general fund expenditures must be deposited to the State General Fund as required by Section 11-9-125 of the Code of Laws.

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 South Carolina Department of Alcohol and Other Drug Abuse Services for the fiscal year ended June 30, 2000, and dated May 2, 2001. We determined that the Department has taken adequate corrective action on the deficiencies in preparing and reviewing the operating leases closing package. However, we have again reported errors in completion of the grant/entitlement receivables and deferred revenue closing package in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE



South Carolina Department of Alcohol and Other Drug Abuse Services

JIM HODGES
Governor

WENDELL PRICE
Interim Director

November 22, 2002

Mr. Thomas L. Wagner Jr., CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

The South Carolina Department of Alcohol and Other Drug Abuse Services (DAODAS) has prepared the following responses to the findings of the FY01 Agreed Upon Procedures Engagement. We also authorize release of the report.

1. RECONCILIATIONS

As indicated to the auditors, DAODAS experienced significant staff turnover during FY2001, which had an adverse impact on the timely preparation of reconciliations. However, the DAODAS, Office of Fiscal Affairs is currently fully staffed and has assigned the timely preparation of reconciliations to the senior accountant. Beginning with FY2003, the preparer is completing revenue reconciliations at the subfund and object code level. This will also allow us to provide a reasonable explanation for revenue variances.

2. TRANSFERS

Through implementation of the above process for reconciliations, DAODAS will identify and correct any variances between its and the Office of Comptroller General records.

3. GAAP CLOSING PACKAGES – ACCOUNTS PAYABLES

The DAODAS will ensure that the preparer and reviewer closely review all supporting documentation for a billing period that represents goods or services received on or before June 30. We will also compare the current and previous fiscal year's closing package and explain any large differences.

DAODAS

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telephone (803) 896-5555 • fax (803) 896-5557 • www.daodas.state.sc.us

4. GAAP CLOSING PACKAGES – GRANT/ENTITLEMENT RECEIVABLES AND DEFERRED REVENUE

The DAODAS will engage in a more detailed review of closing packages to ensure documentation supports all numbers. We will also review data to include only state agencies on the schedule of grant funds passed through to other State agencies.

5. PAY AT TERMINATION OF EMPLOYMENT

The DAODAS Office of Human Resources has implemented a policy where a printout from the SABAR payroll system and a Salary Approval/Payroll Authorization Form (SAF), which provides employee's last day of employment and annual salary, supports termination payouts. The accountant and comptroller also review this information. The Office of Human Resources is not pursuing recovery of the \$132 overpayment as recommended by the Office of the State Auditor. Intent is important in this case, and clearly the employee and DAODAS intended to reflect termination as of the last working day in the pay period. However, December 29, 2000 was the last day worked by the employee. Use of this date as the effective termination date was an oversight and January 1, 2001 should have been the effective termination date.

We look forward to continued improvement in our financial management, procedures and compliance.

Sincerely,



Wendell Price
Interim Director

WP/cj/pc

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