

**SOUTH CAROLINA
DEPARTMENT OF SOCIAL SERVICES
COLUMBIA, SOUTH CAROLINA
INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
JUNE 30, 2003**

State of South Carolina



Office of the State Auditor

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June 25, 2004

The Honorable Mark Sanford, Governor
and
Ms. Elizabeth G. Patterson, 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, 2003, 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 that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

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

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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, 2003, 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.



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1st Global Insurance Service, Inc.*

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.
- 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 these 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. We found no exceptions as a result of the procedures.

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, 2003, 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 2003.

Our findings as a result of these procedures are presented 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, 2003, 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, 2003 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.

Our finding as a result of these procedures is presented in the Accountant's 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 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 & Lalan, PA

August 3, 2004

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 2003**

NON-PAYROLL DISBURSEMENTS AND EXPENDITURES

Disbursements not paid in accordance to State regulations:

During out testing of non-payroll disbursements we noted that 2 out of 50 vouchers selected for testing were not paid in a timely manner.

The South Carolina Procurement Code & Regulations states in 11-35-45 "Payments for Goods and Services Received by State" that all vouchers for payment of purchases of goods or services shall be delivered to the Comptroller General's office within thirty works days from acceptance of the goods or services and proper invoice.

We recommend that the Department establish and put into place the policies to ensure that invoices are paid in a timely manner to abide by the above mentioned State regulation.

COMPLIANCE

Proviso 13.21 of the 2002-2003 Appropriations Act states that the Department shall allocated \$200,000 to the C.R. Neal Learning Center located in Richland County. Per review of supporting documentation, no such allocation was made in fiscal year 2003.

Proviso 72.45 of the 2002-2003 Appropriation Act requires the Department to conduct an annual jurisdictional audit that would have disclosed the above finding. The Department could not provide any documentation that the required jurisdictional audit was performed.

A similar finding was cited in the 2001 report on applying agreed-upon procedures.

We recommend that the Department conduct an annual jurisdictional audit for the purpose of identifying laws, regulations and provisions which are not being used, no longer need to be regulated or are incorrectly stated. After identifying the discrepancies, the Department should draft repeals or revisions and submit them to the General Assembly.

CLOSING PACKAGES

Operating Leases Liability:

During out testing of operating leases, we noted four of the ten leases contained errors. One lease did not have a lease agreement and the amount per the lease register did not agree to the purchase order amount or the amount paid during fiscal year 2003. A second lease also did not have a lease agreement and a portion of the lease register was incomplete. A third lease had inaccuracies between the lease register and closing package resulting in an overstatement of \$26,494 in fiscal year 2003 minimum lease obligation and \$52,987 in fiscal year 2004 minimum lease obligation. Lastly, a fourth lease amount per the lease register did not agree to the purchase order amount or the amount paid during fiscal year 2003.

Similar findings were cited in the 2001 report on applying agreed-upon procedures.

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JUNE 30, 2003**

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. Furthermore, Section 3.19 directs the reviewer of the closing package to agree information on the lease closing package forms to properly completed lease registers. Section 1.8 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. All lease registers should be retained and used in preparation and review of the operating lease closing package. 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.

Accounts Payable:

Our review of the accounts payable closing package disclosed that accounts payable, per the closing package was overstated by \$11,050 due to the improper inclusion of one voucher which was for goods or services received after June 30, 2003.

A similar finding was cited in the 2001 report on applying agreed-upon procedures.

Section 3.12 of the GAAP Closing Procedures Manual defines an accounts payable at June 30th as amounts owed for goods or services that are received on or before June 30 and paid for after June 30th. In addition, Section 1.8 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 accounts payable schedule and in performing the supervisory reviews of the listing and the related documentation that supports accounts payable closing package as of each year-end.

Grant Contribution Receivables and Deferred Revenue:

During our testing of the Grant/Contribution Receivable and Deferred Revenue closing package we noted that errors existed within the accounts payable category on the grants analysis worksheet. Accounts payable were not broken down based on each grant it was related to. The accounts payable figure was simply listed in total at the bottom of the closing package schedule. This resulted in a misstatement on receivables and deferred revenue.

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**ACCOUNTANT'S COMMENTS
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We recommend additional care be exercised in preparing the Grant/Contribution Receivable and Deferred Revenue closing package and in performing the supervisory reviews of the listing and the related documentation that supports the closing package as of each year-end.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

During our review of the Schedule of Federal Financial Assistance (SFFA), we noted that the Department is not properly reconciling their accounting records to the SFFA. The Department does not use their general ledger system to prepare the SFFA; instead they use the accumulated federal financial reports and other sources to prepare their SFFA. We noted that those other such reports do not agree to the general ledger system.

We recommend the Department strengthen its policies and procedures over the preparation of the "Reconciliation of Federal Funds" by incorporating reconciliation between the SFFA and their general ledger system. All federal financial reports filed should also agree with the general ledger.

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**STATUS OF PRIOR FINDINGS
JUNE 30, 2003**

During the current engagement, we reviewed the status of corrective action plan taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report for the fiscal year ended June 30, 2001, dated August 9, 2002. No procedures were applied to the Department's accounting records and internal controls for the year ended June 30, 2002. We determined that the Department has taken adequate corrective action on each of the findings except for the following:

- Accounts Payable Closing Package
- Operating Lease Closing Package
- Compliance with specific Provisos

MANAGEMENT'S RESPONSE

ATTACHMENT A

Non-Payroll Disbursements and Expenditures

We agree that the two sample vouchers were not paid within the thirty days from acceptance of goods. One involved an incorrect claim filed that was returned to the provider for correction, while the other invoice was processed through the regional offices prior to remitting to the Finance division for payment. Additional steps to improve efficiency and improve payments to vendors in a more timely manner have been taken.

Compliance

The primary reason that Richland School District One was not paid \$200,000.00 for the CR Neal Learning Center is that no invoice was presented to the agency for payment. We are not sure why the invoice was not presented, but it may have been related to the following factors:

1. In September, 2001, we notified the district by fax, that under the provision of Proviso 13.22, any funds allocated to the CR Neal Learning Center had to be used to serve DSS clients.
2. At some point Richland School District One closed CR Neal Learning Center and moved operations to some other site or sites.
3. DSS county offices paid the applicable fees for clients referred to Richland School District One Adult Ed Programs.

There may have been other factors in the school district's decision not to bill the agency. The district may have felt it inappropriate to request this funding under the circumstances.

Closing Packages – Operating Leases Liability

The Department agrees with the findings that clerical errors were made in the calculations. Additional training will be provided to staff preparing the schedules, and accuracy and close attention will be stressed.

Closing Packages – Accounts Payable

Once again, we concur with the findings and will prepare and review the schedule more accurately.

Specific Provisos

Management concurs with the recommendations and will take necessary steps to conduct the jurisdictional audit of all required provisos for the department.

Grant Contribution Receivables and Deferred Revenue

The accountants noted that the accounts payable column of the grants analysis worksheet was not broken down by federal grant but was listed in total. Division of Budgeting

Systems staff will work with the preparers of the accounts payable package to accumulate this information as required for the state fiscal year ending June 30, 2004.

Schedule of Federal Financial Assistance

The accountants noted that the Schedule of Federal Financial Assistance was not being "properly" reconciled to the agency's accounting records. The problem is really "timeliness" as noted in the Single Audit for 2003. The Division of Budgeting Systems has policies and procedures regarding the reconciliation and will work to insure the timeliness of the SFY 2004 reconciliations. Since the federal reports are the basis of the Schedule of Federal Financial Assistance, the reconciliation process insures that federal reports are filed and are in agreement with the general ledger. As noted on the majority of the reconciliations, most of the reconciling items are timing differences.