

**SOUTH CAROLINA
HUMAN AFFAIRS COMMISSION
COLUMBIA, SOUTH CAROLINA**

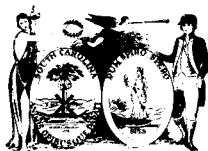
STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 19, 2003

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Human Affairs Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Human Affairs Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2002, in the areas addressed. The Commission'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. 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, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

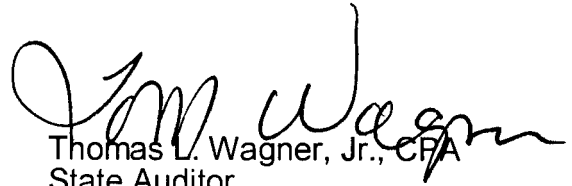
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services 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 in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected 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. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries, and all operating transfers between subfunds, and all 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 randomly. We found no exceptions as a result of the procedures.

5. We tested selected entries and monthly totals in the subsidiary records of the Commission 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 Commission for the year ended June 30, 2002, and tested selected reconciliations of balances in the Commission'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 Commission'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 Commission's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Commission'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 2002. We found no exceptions as a result of the procedures.
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 Commission resulting from our engagement for the fiscal year ended June 30, 2001, to determine if adequate corrective action has been taken. We found no exceptions as a result of the procedures.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Commission 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, 2002, prepared by the Commission 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 Mark Sanford, Governor
and
Members of the Commission
South Carolina Human Affairs Commission
August 19, 2003

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 governing body and management of the Commission 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 WEAKNESS AND/OR VIOLATION 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 condition described in this section has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

GAAP CLOSING PACKAGES

Operating Leases Closing Package

During our testwork of the Operating Leases Closing Package, we noted two errors related to this closing package.

Agencies are required to complete a Lease Register Form for each lease to be reported in the Operating Leases Closing Package. The Lease Register contains information about the lease including the minimum lease payment per period, the executory costs, the lease term and the future minimum lease payments. As of June 30, 2002, the Commission had four leases that were required to be reported. Three of these leases were for copiers that were procured under the 1995 State of South Carolina Copier Contract negotiated by the Materials Management Office. On these lease registers, the Commission reported incorrect amounts for executory costs. This error caused the reported executory costs to be overstated.

The Commission also did not allocate the lease payment for these copiers between the lease payment, maintenance and supplies as instructed by the Comptroller General in the GAAP Closing Package instructions. The instructions state the allocation of costs can be calculated on a monthly basis as payments are made or with a journal entry at year-end. The Commission did not allocate these costs and all costs were charged to lease payments. Therefore, lease payments are overstated while maintenance and supplies are understated.

The Comptroller General's GAAP Closing Procedures Manual, Section 3.19, gives instructions on how to complete all parts of the closing package and states, "Your agency has the option of splitting costs (a) during the year as it makes payments or (b) with a year-end journal entry . . ."

We recommend the Commission follow the Comptroller General's GAAP Closing Package instructions. We recommend that any deviations from the prescribed instructions be documented and approved in writing by the Comptroller General's Office. We also recommend the reviewer perform a thorough review of the information included in the closing package.

Capital Assets Closing Package

During our testwork of the Capital Assets Closing Package, we noted the Commission held title to three depreciable capital assets. However, the Commission did not prepare a depreciation schedule and did not assign useful lives to the assets.

The Commission submitted the Accumulated Depreciation Summary Form which reported accumulated depreciation equal to the assets' costs. Since the Commission did not assign useful lives to the assets and calculate depreciation, the net value of the assets (cost less accumulated depreciation) is unknown. The Commission did not maintain their working papers to support the amounts reported on the Accumulated Depreciation Summary Form.

Section 3.9 of the Comptroller General's GAAP Closing Package Manual gives detailed instructions in how to complete the Capital Assets Closing Package and the Accumulated Depreciation Summary Form. This section also includes guidance for assigning useful lives to assets and states, "To compute depreciation of a capital asset, accountants first determine its useful life. They then prorate the cost of the assets among the fiscal years of its estimated useful life."

The GAAP Closing Package Manual also states that "all working papers are subject to audit. The agency should keep copies of the completed Capital Assets Summary Form and the completed Accumulated Depreciation Summary Form. In addition, the agency should keep working papers to support each number on these forms."

We recommend the Commission follow the instructions provided by the Comptroller General regarding the preparation of GAAP Closing Packages. We also recommend the Commission identify the useful lives of their capital assets and apply an acceptable depreciation method. The Commission should also retain all working papers used in preparing their closing packages.

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 Commission for the fiscal year ended June 30, 2001, and dated July 25, 2002. We determined that the Commission has taken adequate corrective action on each of the findings. In response to our inquiries, we were told that the Commission has developed and implemented procedures to correct the weaknesses reported in the prior year.

MANAGEMENT'S RESPONSE



HUMAN AFFAIRS COMMISSION

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Jesse Washington, Jr.
Commissioner

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September 29, 2003

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

Dear Mr. Wagner:

We are in receipt of the preliminary draft of the State Auditor's report pertaining to fiscal year 2001-2002. The following responses are made to the Independent Accountant's Report on Applying Agreed-Upon Procedures dated August 19, 2003, and received on September 18, 2003.

The Human Affairs Commission herein responds to the Accountant's Comments.

COMMENT #1Operating Leases Closing Package – Lease Registers

“Three of these leases were for copiers procured under the 1995 State of South Carolina Copier Contract negotiated by the Materials Management Office. On these registers, the Commission reported incorrect amounts for executory costs. This error caused the reported executory costs to be overstated.”

RESPONSE

In this instance, the executory costs were properly calculated. A clerical error caused items 8a and 8b on the lease registers in question to be inverted. More specifically:

		Executory Costs Per Period <u>Item 8a</u>	Net Minimum Lease Payment per Period <u>Item 8b</u>
Lease ID# X230-1	Entered as	\$319.00	\$159.00
	Instead of	159.00	319.00
Lease ID#X230-2	Entered as	298.00	148.00
	Instead of	148.00	298.00

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Lease ID# X5100-15L: Entered as	1,377.00	688.00
Instead of	688.00	1,377.00

In the future, lease registers prepared by the agency will be given more thorough examination and review prior to submission.

COMMENT #2

“The Commission also did not allocate the lease payment for these copiers between the lease payment, maintenance and supplies as instructed by the Comptroller General in the GAAP Closing Package instructions.”

RESPONSE

This requirement has been eliminated as of July 1, 2002. Please see GAAP Closing Procedures Manual issued June 30, 2003, Reference 3.19, pages 1 through 32. Also see STARS Policies and Procedures Manual FY 2002-2003.

COMMENT #3

Capital Assets

“During our test work of the Capital Assets Closing Package, we noted the Commission held title to three depreciable capital assets. However, the Commission did not prepare a depreciation schedule and did not assign useful lives to the assets.”

RESPONSE

The Capital Assets Closing Package was prepared correctly, according to the Office of the Comptroller General.

Fiscal Year 01-02 was the first year of implementation of GASB 34 for the state of South Carolina. Prior to this time, the Human Affairs Commission was not required to depreciate nor report depreciation of capital assets.

In compliance with GASB 34, the Human Affairs Commission revised its capitalization policy, and reclassified its Fixed Assets records going back to FY 73-74, thereby identifying the three “depreciable capital assets” in question. They are:

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1. Computer software (CAAMS) purchased in 1990
2. A building sign purchased in 1998
3. Computer equipment (printer) purchased in 1999

All of the above assets would have no more than an estimated life of three years, and it would be expected that by the end of FY 01-02, they would be fully depreciated.

The Human Affairs Commission acknowledges the omission of the prepared depreciation schedules at June 30, 2002. These schedules have been subsequently prepared.

ADDITONAL COMMENT

It is noted that in the Accountant's Comments, Section B – Status of Prior Findings, it is stated:

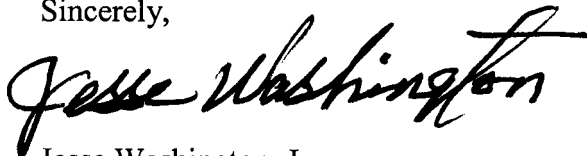
“In response to our inquiries, we were told that the Commission has developed and implemented procedures to correct the weaknesses reported in the prior year.”

RESPONSE

The Commission's response to the FY 00-01 State Auditor's draft report dated October 28, 2002 and received on October 29, 2003, was done in writing by letter from Jesse Washington, Jr. to Thomas L. Wagner, Jr., CPA on November 18, 2002. Although our response was not acknowledged, recorded nor published, the Commission demonstrated in this letter that corrective action had been taken.

It is the intention of the Human Affairs Commission to comply with any and all requirements of the South Carolina Code of Laws, the Appropriation Act and all other laws, rules and regulations. The findings cited will aid in making the necessary changes in our internal operations to allow such compliance.

Sincerely,



Jesse Washington, Jr.
Commissioner

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