

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1999

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 7, 2000

The Honorable James H. Hodges, Governor
and
Mr. Rick C. Wade, 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, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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.

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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 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 all 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 on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing 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 computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and operating transfers and all 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 and operating transfer transactions selected for testing were chosen judgmentally to include large, routine, and unusual transactions. We found no exceptions as a result of the procedures.

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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, 1999, 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 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 judgmentally. We found no exceptions as a result of the procedures.
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 1999. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 1999, 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.
9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, 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 James H. Hodges, Governor
and
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South Carolina Department of Alcohol
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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. 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 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

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.

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 several incorrectly prepared and/or misstated fiscal year-end 1999 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, this section of the GAAP Manual requires an effective supervisory review of each completed closing package and lists the minimum review steps to be performed. Section 1.9 of the GAAP Manual provides that "Agencies should keep working papers to support each amount they enter on each closing package form."

The following outlines the errors we noted on certain 1999 closing packages.

Refund Receivables

The Department reported refund receivables on its Refund Receivables Closing Package for the following GAAP Fund Codes:

<u>GAAP Fund Code</u>	<u>Amount</u>
1001	\$ 2,452
2001	\$106,440
2005	\$ 23
4005	\$ 635

The amounts reported represent refunds received during fiscal year 1999, not uncollected receivables at fiscal year-end. According to Section 3.5b of the GAAP Manual, "Refund receivables include amounts that non-State parties owe you at June 30 relating to past State overpayments. . .The State's policy is to report on its June 30 balance sheet any miscellaneous net amounts receivable by the State from non-State parties. These amounts include Refund Receivables for all agencies that received \$100,000 or more in refunds during the year."

Compensated Absences

The Department reported \$7,002 and \$418, respectively, for accrued overtime compensatory time and holiday compensatory time on the Compensated Absences Summary Form. These amounts are included on the Department's supporting schedule, the "Leave Liability – All Types By Name Based on Rates (at) 06-30-99" report. However, that report also indicates that the total amount of accrued compensatory time at June 30, 1999, was \$9,331, resulting in a \$1,911 understatement of its compensated absences liability. Management was unable to explain why the difference occurred or to determine the correct amounts which should have been reported separately for overtime and holiday compensatory time.

Also, a balance of 7.5 hours for "other" leave is shown on the leave liability report for one employee even though no "other" leave accrual is included on the individual's June 30, 1999, leave statement. Department personnel could not provide documentation to support the "other" leave and indicated they were unaware the amount was included on the leave liability report.

Section 3.17 of the GAAP Manual provides detailed guidance for reporting compensated absences and for preparing and retaining supporting working papers.

Grant/Entitlement Receivables and Deferred Revenue

Sections 2.0 and 3.3 of the GAAP Manual define pass-through grants as follows:

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

A subrecipient is a non-federal entity that expends or passes through federal awards received from a pass-through entity to carry out a federal program. Subpart D of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations states that a pass-through entity is responsible for identifying to the subrecipient the federal award information [e.g., Catalog of Federal Domestic Assistance (CFDA) title and number, award name, name of federal agency] and applicable compliance requirements; monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements; ensuring required Single Audits are performed; and ensuring the subrecipient takes appropriate and prompt corrective action on any audit findings; and evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

During our engagement, we noted that the Department charged \$656,186 of federal fund expenditures to object code 1770 which according to the manual for the State's accounting system records "Allocations to Other State Agencies: To include distributions of funds, other than state appropriated funds, to other state agencies." Generally, use of the 1770 object code indicates that the agency making the disbursement is a pass-through entity.

The Department did not prepare a schedule of funds passed through to other State agencies as described in question #7 of the Closing Package Control Checklist.

Recommendations

We recommend that the Department implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Manual requirements and instructions. We recommend that the Department design and follow procedures to ensure for each closing package including the Closing Package Control Checklist that an appropriate supervisor other than the preparer 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 accounting and other source records; and perform the independent comparison of amounts used in calculations to the source records, independent verification of the computations, and independent review by someone knowledgeable of GAAP and familiar with the GAAP Manual. When the Department's employees who are responsible for preparing and reviewing closing package forms do not understand the forms and/or the instructions, they should contact the Office of the Comptroller General for assistance.

MANAGEMENT'S RESPONSE



South Carolina Department of Alcohol and Other Drug Abuse Services

JIM HODGES
Governor

RICK C. WADE
Director

May 25, 2000

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:

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

1. GAAP CLOSING PACKAGE – REFUND RECEIVABLES

The DAODAS has implemented a policy by which the auditor will review all closing packages' instructions, completed closing packages and crosscheck all computations. The Deputy Director for Finance and Operations will also review all closing packages.

2. GAAP CLOSING PACKAGE -- COMPENSATED ABSENCES

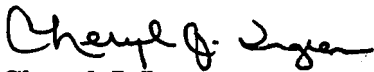
The DAODAS has contacted the vendor for SABAR to discuss the problems with the report. The Human Resource Director will conduct a quarterly review of the leave report. The DAODAS has implemented a policy by which the auditor will review all closing packages' instructions, completed closing packages and crosscheck all computations. The Deputy Director for Finance and Operations will also review all closing packages

3. GAAP CLOSING PACKAGE – GRANT/ENTITLEMENT RECEIVABLES AND DEFERRED REVENUE

The DAODAS has implemented a policy by which the auditor will review all closing packages' instructions, completed closing packages and crosscheck all computations. The Deputy Director for Finance and Operations will also review all closing packages.

The DAODAS appreciates the opportunity to address the findings of the Agreed Upon Procedures Engagement. If there are any questions or should you need further information, please call me at 734-9536.

Sincerely,

A handwritten signature in black ink, appearing to read "Cheryl J. Ingram".

Cheryl J. Ingram
Deputy Director for Finance and Operations

CJI

Enclosures