

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

STATE AUDITOR'S REPORT

JUNE 30, 2000

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 2, 2001

The Honorable Jim 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 (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2000, 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 we used other procedures to determine 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 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 all 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 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. We found no exceptions as a result of the procedures.

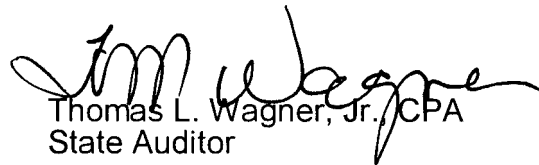
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5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were 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, 2000, 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 randomly. 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 2000. 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 Department resulting from our engagement for the fiscal year ended June 30, 1999, 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, 2000, 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, 2000, 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.

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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

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.

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 2000 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, independent supervisory review of each completed closing package and the underlying working papers and accounting records and completion of the reviewer checklist and lists the minimum review steps to be performed. It suggests the Department assign the appropriate people to prepare and review closing packages.

The following comments outline the errors we noted on certain 2000 closing packages.

Operating Leases

The Department overstated the future net minimum lease payments for noncancelable operating leases with initial or remaining terms of greater than one year at June 30, 2000, and understated the amount of executory costs on the operating leases summary form by \$48,740. In determining the obligations remaining for fiscal years ending after June 30, 2005, the Department in error included executory costs in the Section II amounts (future net minimum lease payments for noncancelable operating leases) for one of the three leases included on

the form and omitted them from the Section V amounts (executory costs included in minimum lease payment). Additionally, the Department overstated the net lease payment per period reported on one of the three lease registers by approximately \$5,100 because it incorrectly entered the monthly payment amount. Departmental personnel could not explain why these errors occurred. There was evidence of supervisory review of the closing package and the agency's supporting documentation for this closing package included a completed reviewer checklist. Yet, the review did not detect the errors.

Section 3.19 of the GAAP Manual defines net minimum lease payment as the minimum lease payment net of any executory costs included in the payment due from the lessee to the lessor. Executory costs are costs such as insurance, maintenance, and taxes the lessee must pay in connection with leased property. Effective beginning for fiscal year 1998 closing packages, when operating lease executory costs are part of the minimum lease payment, Section 3.19 directs preparers to exclude such executory costs when calculating the net minimum lease payment. Executory costs should be reported separately in Section V of the operating leases summary form.

Section 3.19 goes on to explain that the net lease payment per period is the annual net minimum lease payment amount divided by the number of payments required to be made per year. That amount excludes all executory costs, whether they are a part of the minimum lease payment made to the vendor or in addition thereto.

Grant/Entitlement Receivables and Deferred Revenue

The Department overstated the amount due from federal grantors by \$989,807 on its grant/entitlement receivables and deferred revenue summary form because an incorrect formula was used when preparing the Department's grants analysis worksheet. There was evidence of supervisory review of the closing package; the agency completed the reviewer checklist. However, the review did not detect the error.

Section 3.3 of the GAAP Manual defines grant/entitlement receivables at June 30 as amounts that grantors owe the State at June 30. The GAAP Manual directs the Department to prepare a grants analysis worksheet or similar form to aid in properly computing closing package amounts.

Recommendations

We recommend that the Department assign staff to prepare and review closing packages who are knowledgeable of GAAP and familiar with the GAAP Manual guidance and requirements and applicable agency data for completion of the applicable closing package. Also, we recommend the agency implement procedures to help ensure that all closing packages including the closing package control checklist 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 applicable forms to the Comptroller General's Office. Each reviewer should be an appropriate supervisor other than the preparer. 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 formulas used in the supporting documentation and the computations in the working papers and on the closing package; and complete the 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 Office of the Comptroller General for assistance.

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, 1999, and dated April 7, 2000. We determined that the Department has taken adequate corrective action on the deficiencies in preparing and reviewing the refund receivables and compensated absences closing packages. 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

RICK C. WADE
Director

July 27, 2001

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 FY00 Agreed Upon Procedures Engagement. We also authorize release of the report.

1. GAAP CLOSING PACKAGE – OPERATING LEASES

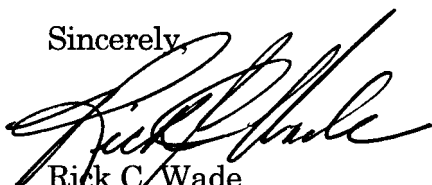
The DAODAS has implemented a procedure where the preparer will utilize a spreadsheet to calculate all figures for the closing package. The preparer and reviewer will crosscheck all calculations and supporting documentation.

**2. GAAP CLOSING PACKAGE – GRANTS/ ENTITLEMENT RECEIVABLES
AND DEFERRED REVENUE**

The DAODAS has corrected the computer spreadsheet error. The preparer and reviewer will crosscheck all calculations and supporting documentation.

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

Sincerely,



Rick C. Wade
Director

RCW/cji

DAODAS

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