

**SOUTH CAROLINA STATE AGENCY
OF VOCATIONAL REHABILITATION**

WEST COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 14, 2007

The Honorable Mark Sanford, Governor
and
Board of Directors
South Carolina State Agency of Vocational Rehabilitation
West Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina State Agency of Vocational Rehabilitation (the State Agency), solely to assist you in evaluating the performance of the State Agency for the fiscal year ended June 30, 2006, in the areas addressed. The State Agency'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. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- 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 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$10,500 – general fund, \$87,600 – earmarked fund, and \$221,400 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Object Code and Posting of Revenue in the Accountant's Comments section of this report.

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 in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the State Agency, 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.
- 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 in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$67,500 – general fund, \$85,200 – earmarked fund, and \$219,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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 processed in accordance with the agency's policies and procedures and State regulations.
- We inspected 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 inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- 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 compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$67,500 – general fund, \$85,200 – earmarked fund, and \$219,900 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 2 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Payroll Calculations in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, and all 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, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry 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 State Agency 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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 State Agency for the year ended June 30, 2006, and inspected selected reconciliations of balances in the State Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. 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 State Agency'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 State Agency's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the State Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the State Agency 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Closing Packages 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, 2006, prepared by the State Agency and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the State Agency resulting from our engagement for the fiscal year ended June 30, 2005, to determine if State Agency had taken corrective action.

Our findings as a result of these procedures are presented in Closing Packages and Payroll Calculations in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Board of Directors
South Carolina State Agency of Vocational Rehabilitation
September 14, 2007

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 elements, 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 South Carolina State Agency of Vocational Rehabilitation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

**SECTION A – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS,
RULES OR REGULATIONS**

Management of each state agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

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

PAYROLL CALCULATIONS

We tested twenty-five new employee payroll transactions and twenty-five payroll transactions of employees who terminated employment and noted the following:

1. New Employees – We found the payroll calculations for three of the employees tested were incorrect. Each of the employees worked a partial pay period.
 - a. The accountant calculated the employee's pay using the employee's hourly rate times the number of hours worked instead of using the employee's daily rate (i.e., gross pay divided by the number of days in the pay period) times the number of days worked.
 - b. The accountant calculated the employee's check based on the employee working ten days instead of the six days the employee actually worked.
 - c. The accountant calculated the employee's check based on the employee working eleven days instead of the ten days the employee actually worked.
2. Employees Terminating Employment – We found the payroll calculations for two of the employees tested were incorrect.
 - a. The accountant calculated the individual's final pay check based on six days instead of the five days the individual actually worked.
 - b. The accountant used the wrong number of annual leave hours to calculate the individuals annual leave payout.

Section 8-11-30 of the 1976 code of Laws, as amended, states,

- (A) It shall be unlawful for a person:
 - (1) to receive any salary from the State of any of its departments which is not due; or
 - (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees...

The errors noted above resulted in the State Agency making overpayments in excess of \$3,100.

We recommend the State Agency develop and implement procedures to ensure the payments made to employees are accurate. We also recommend that the procedures include independent reviews of payroll calculations. Finally, we recommend the State Agency attempt to recover the overpayments.

CLOSING PACKAGES

Section 1.7 of the GAAP Closing Procedures Manual states, “Each agency’s executive director and finance director are responsible for submitting to the Comptroller General’s Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, Complete, and Timely.” Our review of the State Agency’s 2006 closing packages disclosed the following:

Capital Assets Closing Package

The Capital Assets Closing Package contained several errors. The State Agency omitted, misstated or incorrectly recorded several amounts on the closing package. Based on our procedures we noted the following:

- Current year depreciation for Land Improvements and Building and Building Improvements were omitted. Financial Statement Impact – Depreciation was understated.
- Accumulated depreciation related to asset retirements was not accounted for properly. Financial Statement Impact – Accumulated depreciation was overstated.
- Capital projects completed during the current year were not reclassified from the Construction In Progress account to the appropriate asset accounts. Financial Statement Impact – Construction In Progress was overstated and the related capital asset accounts were understated.
- Land and building sold during the year were not recorded on the closing package. Financial Statement Impact – Land and building accounts were overstated.

Accounts Payable Closing Package

The State Agency incorrectly reported an accounts payable related to capital equipment and capital outlay as a current year expenditure in GAAP Fund Code 2060. Agency personnel explained that the error was the result of a misinterpretation of expenditure classification. The payable should have been reported as a capitalizable equipment and capital outlay.

Operating Leases Closing Package

The State Agency understated total future minimum lease payments by \$1,620 for the periods ending June 30, 2008 and 2009 on the Operating Lease Closing Package. Based on our procedures we noted that the carry forward balance related to monthly lease payments for one lease from the prior year was transposed. As a result the future minimum lease payments were understated.

Recommendation

We recommend that the State Agency develop and implement procedures to ensure that the all closing packages are completed in accordance with the GAAP Closing Procedures Manual instructions. Furthermore, we recommend that the State Agency make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

OBJECT CODE

The State Agency used STARS revenue object code 2822 – Federal Operating Grants instead of revenue object code 7803 – Sale of Services to record a cash transfer between two Earmarked Subfunds. As a result, object code 7803 was overstated and object code 2822 was understated by \$99,000. Agency personnel either misinterpreted the purpose the revenue object code or miscoded the transaction document.

Section 2.1.6.10 of the Comptroller General’s Statewide Accounting and Reporting Manual (STARS Manual) provides definitions of revenue object codes to help agencies properly classify revenues.

We recommend the State Agency ensure that accounting personnel are familiar with the STARS revenue definitions. We also recommend the State Agency implement procedures to ensure the timely detection and correction of errors.

SECTION B – OTHER WEAKNESS

The condition described in the section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

POSTING OF REVENUES

We noted eight of twenty-five cash receipt transactions were posted to the agency's accounting records more than five days after the funds were deposited. The transactions were posted from six to twenty days after the date of deposit. The State Agency does not have a formal policy which addresses timely posting of receipt transactions.

When control procedures do not ensure timely posting of accounting transactions, the accounting records are at a greater risk of being misstated. Effective internal controls and good business practices require the timely recording of accounting transactions. Timely recording of accounting transactions provides management with current information which enables them to make sound business decisions based on current financial information.

We recommend the State Agency develop and implement procedures to ensure the timely recording of financial transactions.

SECTION C - 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 State Agency for the fiscal year ended June 30, 2005, and dated October 3, 2006. We determined that the State Agency has taken adequate corrective action on the findings entitled Accounts Payable and Grant/Contribution Receivables and Deferred Revenues Closing Packages, Reconciliations, Workcenter Composite Bank Account, Revenue Accounts, and Worker's and Unemployment Compensation Insurance. However, the continuing deficiencies are described in Closing Packages and Payroll Calculations in Section A of the Accountant's Comments in this report.

MANAGEMENT'S RESPONSE



SCVRD

*Enabling eligible South Carolinians with disabilities
to prepare for, achieve, and maintain competitive employment.*

Larry C. Bryant, Commissioner

**South Carolina Vocational Rehabilitation Department (H73)
July 1, 2005 — June 30, 2006 Audit Response**

Payroll Calculations

We concur with the recommendation and will strengthen our procedures to ensure accurate entry of payroll information. We will implement additional independent verifications of new hire and termination payroll calculations to prevent these errors in the future.

Closing Packages

We concur with the recommendation. We will strengthen all closing package procedures to ensure that they are prepared accurately and supported by adequate documentation. With increased staff experience in preparing closing packages, especially the Capital Assets Closing Package, we do not expect such errors to recur.

Object Code

We concur with the recommendation. We will review and implement procedures to ensure the timely detection and correction of errors.

Posting of Revenues

We concur with the recommendation. We will review and implement procedures to ensure the timely recording of revenue transactions.

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