

**SOUTH CAROLINA STATE AGENCY
OF VOCATIONAL REHABILITATION
WEST COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2007

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 14, 2008

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, 2007, 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 (\$10,300 – general fund, \$90,900 – earmarked fund, and \$220,500 – 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. We found no exceptions as a result of the procedures.

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 (\$69,300 – general fund, \$86,000 – earmarked fund, and \$222,700 – 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 (\$69,300 – general fund, \$86,000 – earmarked fund, and \$222,700 – 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 ± 5 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 Supporting Documentation 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. Our finding as a result of the procedures is presented in Object Codes in the Accountant's Comments section of this report.

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, 2007, 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 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, 2007, 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, 2007, 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's Report resulting from our engagement for the fiscal year ended June 30, 2007, to determine if Agency had taken corrective action.

Our findings as a result of these procedures are presented in Closing Packages 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
August 14, 2008

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.", with a stylized flourish at the end.

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

ACCOUNTANT'S COMMENTS

SECTION A - 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.

CLOSING PACKAGES

Section 1.7 of the Comptroller General's 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 closing packages disclosed the following:

Capital Assets Closing Package

The capital assets closing package contained several errors. The State Agency incorrectly recorded several amounts on the closing package. Based on our procedures we noted the following:

- Net corrections were incorrectly recorded for a retirement that had been omitted from the fiscal year 2006 closing package and for accumulated depreciation for vehicles disposed of in fiscal year 2006. Financial Statement Impact – Buildings and improvements and Accumulated depreciation are overstated.
- Cost in the Construction in Progress account for a capital project completed during the year was not reclassified to the appropriate asset account. Financial Statement Impact – Construction in Progress was overstated and the related capital asset accounts were understated.
- \$27,014 of current year depreciation for Machinery and Equipment was reported as Vehicles depreciation. Financial Statement Impact – Depreciation and accumulated depreciation is overstated for Vehicles and understated for Machinery and Equipment.

Accounts Payable Closing Package

The State Agency incorrectly reported an accounts payable related to capital equipment and capital outlay on the current year expenditure line of the account payable summary form. The error was the result of a misinterpretation of expenditure classification. The payable should have been reported on the capitalized equipment and capital outlay line of the form. As a result the current year expenditure line was overstated by \$74,940 in GAAP Fund 1001 and \$299,759 in GAAP Fund 4005. The capital equipment and capital outlay line was understated by an equal amount.

Grants/Contribution Revenues Closing Package

The State Agency did not properly calculate grant receivables and/or deferred revenue for certain grants on the grant analysis worksheet. The errors resulted from the exclusion of other additions/deductions on the Schedule of Federal Financial Assistance that include refunds of prior year expenditures and transfers of ending grant fund balances. Grants receivable balance was overstated by \$215,082 and deferred revenues balance was overstated by \$280,929.

Compensated Absences Closing Package

Our review of the State Agency's leave liability report revealed a programming error associated with calculating employee leave balances. This programming error resulted in an overstatement of certain leave balances on the leave liability report and, therefore, an overstatement of the reported liability for compensated absences.

Recommendation

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

OBJECT CODES

Our testing of operating transfers disclosed that the State Agency coded federal funds received from another state agency on a sub-grant basis to an incorrect object code. A portion of funds received were properly coded to object code 2805 – Federal Grant Sub-contract State Agencies while some of the same receipts were coded to object code 2822 – Federal Operating Grants and to object code 3902 – Other Reimbursements – State Agencies. Agency personnel either misinterpreted the purpose of 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 timely detection and correction of errors.

SECTION B - OTHER WEAKNESS

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

SUPPORTING DOCUMENTATION

The State Agency was unable to provide adequate documentation to support the pay rate or termination date for one of twenty-five employees selected for testing who terminated employment. The former employee's payroll/personnel records had been archived but a review of the archived data failed to support the employee's pay rate or termination date.

Effective internal controls require the maintaining of proper supporting documentation for pay rates and termination dates.

We recommend the State Agency maintain supporting documentation regarding pay rate and termination date to ensure sound internal controls.

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, 2006, and dated September 14, 2007. We determined that the State Agency has taken adequate corrective action on the findings entitled Payroll Calculations, Object Code, and Posting of Revenues. However, the continuing deficiencies are described in Closing Packages in Section A of the Accountant's Comments in this report.

MANAGEMENT'S RESPONSE



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

Larry C. Bryant, Commissioner

**South Carolina Vocational Rehabilitation Department (1173)
July 1, 2006 - June 30, 2007 Audit Response**

Closing Packages

We concur with the recommendation. We will increase training and strengthen all closing package procedures to ensure that they are prepared accurately and supported by adequate documentation.

Object Code

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

Supporting Documentation

We concur with the recommendation. We will review and implement procedures to ensure all documentation on temporary employees is maintained.

4 copies of this document were published at an estimated printing cost of \$1.55 each, and a total printing cost of \$6.20. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.