

June 22, 1999

The Honorable James H. Hodges, Governor
and
Members of the Agency
South Carolina State Agency of Vocational Rehabilitation
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina State Agency of Vocational Rehabilitation for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

**SOUTH CAROLINA STATE AGENCY OF VOCATIONAL REHABILITATION
STATE OF SOUTH CAROLINA**

COLUMBIA, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 1998

**SOUTH CAROLINA DEPARTMENT OF VOCATIONAL REHABILITATION
STATE OF SOUTH CAROLINA**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the State Auditor and the South Carolina State Agency of Vocational Rehabilitation (the Agency), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 1998, 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 with those of the prior year. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Section A in the Accountant's Comments section of this report.
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 Agency; 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 various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with 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 that the vouchers were properly approved and that 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 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 with those of the prior year, and comparing the percentage change in personal service expenditures to the percentage change in employer contributions, and computing the percentage distribution of 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. Our finding as a result of these procedures is presented in Section B in the Accountant's Comments section of this report.

4. We tested selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the internal controls over these transactions were adequate; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Section B in the Accountant's Comments section of this report.
5. We tested selected entries and monthly totals in the subsidiary records of the 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 the internal accounting controls over the tested transactions were adequate. The items 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 Agency for the year ended June 30, 1998, and tested selected reconciliations of balances in the Agency's accounting records to those in the State's accounting system (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 Agency's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Agency's accounting records and/or STARS. The reconciliations selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Section B in the Accountant's Comments section of this report.
7. We tested the Agency'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 1998. 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 report on the Agency resulting from our engagement for the fiscal year ended June 30, 1997 to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Section C 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, 1998, prepared by the Agency 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 Section B 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, 1998, prepared by the Agency 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.

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 Agency'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 specified users and is not intended to be and should be used by anyone other than these specified parties.

Columbia, South Carolina
June 10, 1999

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

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

The procedures agreed to by the Office of the State Auditor and 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 Agency is responsible for establishing and maintaining internal control. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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.

RECEIPTS NOT DEPOSITED TIMELY

The Agency is not timely depositing all receipts. Two of the twenty-five receipts tested were not deposited timely as required by State law. In one case, funds received on January 14 were not deposited until January 23. In the other case, funds received on October 16 were not deposited until November 19. Section 1.1 of the 1998 Appropriation Act requires all receipts to be deposited at least once each week. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

We recommend that all receipts be deposited in a timely manner as required.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

REVIEWER'S CHECKLISTS FOR CLOSING PACKAGES NOT COMPLETED ENTIRELY OR SIGNED

Our review of the various reviewer's checklists disclosed that various steps were not completed and that some of the checklists were not signed or dated by the reviewer. The GAAP Closing Procedures Manual prepared by the Comptroller General's Office requires that a reviewer's checklists be completed on each section. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

We recommend that the Agency ensure that all closing package reviewer's checklists are completed in their entirety and that the reviewer sign and date the checklist.

ERRORS IN SCHEDULES SUPPORTING CLOSING PACKAGES

Our tests of support for the closing packages disclosed addition errors on the supporting workpapers for two of the closing packages. The errors resulted in federal grants receivable being overstated and deferred revenue being understated on the closing packages. Good accounting controls require a second footing of all schedules to ensure that they are mathematically correct.

We recommend that all schedules be footed a second time to ensure that they are mathematically correct.

ACCOUNTING POLICIES AND PROCEDURES MANUAL

The Agency does not have a complete policy and procedures manual in place over the accounting and finance department. Good accounting controls over an agency of this size would dictate that written policy and procedures are in place to ensure that all transactions are properly authorized and recorded. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

We recommend that the Agency develop a policies and procedures manual covering all of its financial activity.

EMPLOYEE NOT PAID FOR HOURS WORKED

Our test of payroll expenditures disclosed that an hourly employee was not paid for 27.5 hours for the pay period ended October 1, 1997. This resulted in the employee being underpaid approximately \$1,100.

We recommend that the Agency implement procedures to ensure that employees are paid for all hours worked.

FUNCTIONS NOT PERFORMED TIMELY

There are approximately 50 small reconciling items between the Agency's general ledger and the Comptroller General's records. No entries had been made for these items. Some of these items date back to 1986. Also, the Agency did not complete the year end reconciliations to the Comptroller General until May 23, 1999 and some interagency transfers were not posted until six months after the transfer took place.

Good accounting policies require that reconciliations be performed and that transactions be posted in a timely manner.

We recommend that the Agency reconcile all accounts and post all transactions in a timely manner.

WORKSHOP BANK ACCOUNT RECONCILIATION DEFICIENCIES

Our review of the reconciliation of the bank account for the workshop account disclosed that the reconciled balance was approximately \$41,000 less than recorded in the Agency's general ledger. This appeared to be composed primarily of deposits in transit but no detailed listings were maintained to support this amount. Also, there were no initials of the preparer or evidence of a review process of the bank reconciliations.

We recommend that the Agency maintain a detail listing supporting all reconciling items. In addition, all reconciliations should be initialed and dated by the preparer and a review process should also be documented.

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 report on applying agreed-upon procedures on the Agency for the fiscal year ended June 30, 1997, dated May 28, 1998. The deficiencies noted were corrected except as denoted on pages 4 and 5.

SOUTH CAROLINA VOCATIONAL REHABILITATION DEPARTMENT

Response to Auditor's Comments

1998 State Audit

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

RECEIPTS NOT DEPOSITED TIMELY

The agency has a clear policy instructing our training center staff to deposit funds received from production contracts on no less than a weekly basis which is consistent with state regulations. During this audit period, our 21 centers made over 1,500 deposits which totaled more than 16 million dollars. Compliance in this area will be given a priority by emphasizing this regulation to all staff involved and more frequent internal audits of this area.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

REVIEWER'S CHECKLISTS FOR CLOSING PACKAGES NOT COMPLETED ENTIRELY OR SIGNED

ERRORS IN SCHEDULES SUPPORTING CLOSING PACKAGES

ACCOUNTING POLICIES AND PROCEDURES MANUAL

EMPLOYEE NOT PAID FOR HOURS WORKED

FUNCTIONS NOT PERFORMED TIMELY

WORKSHOP BANK ACCOUNT RECONCILIATION DEFICIENCIES

We concur with these findings and will institute the necessary controls to ensure compliance in these areas. The agency's accounting division operates with a relatively small staff, four accountants and one manager, of which two of the accountants were lost to attrition and one to retirement during this audit period. These positions have now been filled which will improve our performance in these areas.