

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

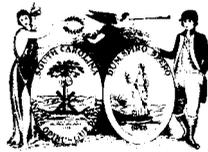
**STATE AUDITOR'S REPORT**

**JUNE 30, 2000**

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# State of South Carolina



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

August 14, 2001

The Honorable Jim Hodges, 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, solely to assist you in evaluating the performance of the State Agency 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 estimations and other procedures to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the cooperative agreements the State Agency has with other entities to receive funds for a portion or all services provided and verified the services were provided and the correct amounts were collected. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Timing of Deposits in the Accountant's Comments section of this report.

The Honorable Jim Hodges, Governor  
and  
Board of Directors  
South Carolina State Agency of Vocational Rehabilitation  
August 14, 2001

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 State Agency, and were paid in conformity with State laws and regulations; if the related acquired goods and/or services were provided in accordance with applicable 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 selected ones 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. Our findings as a result of these procedures are presented in Employee Profiles and Workers' and Unemployment Compensation Insurance in the Accountant's Comments section of this report.
4. We tested randomly 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. Our finding as a result of these procedures is presented in Journal Vouchers in the Accountant's Comments section of this report.

5. We tested 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 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 requested all monthly reconciliations prepared by the State Agency for the year ended June 30, 2000, and tested fiscal month 13 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 they were accurate and complete. For the selected reconciliations, we 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. We judgmentally selected the year-end reconciliations for testing. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the State 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 2000. Our findings as a result of these procedures are presented in Section A in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the Report on Applying Agreed-Upon Procedures to the financial records and internal control of the State Agency resulting from the engagement performed by other accountants 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 various comments in Section A of the Accountant's Comments and as summarized in Section B – Status of Prior Findings 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 State 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 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 State 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.

The Honorable Jim Hodges, Governor  
and  
Board of Directors  
South Carolina State Agency of Vocational Rehabilitation  
August 14, 2001

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. Furthermore, 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 State 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 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.



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.

## **WORKERS' AND UNEMPLOYMENT COMPENSATION INSURANCE**

The State Agency paid one hundred percent of workmen's and unemployment compensation insurance out of federal funds. Management indicated it was unaware of this problem or that it had occurred.

Proviso 63G.1. of the fiscal year 2000 Appropriation Act states, "It is the intent of the General Assembly that any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of the employer costs of retirement, social security, workmen's compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency's employees."

We recommend that the State Agency design and implement policies and procedures to ensure that workmen's and unemployment compensation insurance costs are charged equitably among all of its funds.

## **EMPLOYEE PROFILES**

We could not agree the fund source on the Office of Human Resources Profiles to the fund source on the Office of the Comptroller General's (OGA) Payroll Warrant Registers for eight out of the twenty-two permanent employees tested in our Test of Payroll.

The Department only retains and maintains employee profiles for the current calendar year (2001) and the prior calendar year (2000). The State Agency's employees believed that this was an adequate retention schedule. However, they could not prove that the employees tested were paid from the correct fund source.

Regulation 12-417. of the South Carolina Department of Archives and History's guidelines for records retention schedules for personnel records of state agencies states that information in personnel files of current and former employees including applications, recommendation letters, employee awards, resumes, performance appraisals, leave records, employee profiles; OGA's Payroll Advices position descriptions, insurance information, dual employment information, resignation and termination records, correspondence, and other related information should be kept for 15 years after termination of employment and then the records may be destroyed.

We recommend that the Department retain and maintain all personnel records in accordance with the Department of Archives and History's record retention schedule guidelines for state agencies.

### **RECONCILIATIONS**

We were told that the State Agency performed monthly reconciliations of revenues, expenditures, and ending cash balances in its accounting system and those in the State's system (STARS) for all funds and for all months. However, the State Agency did not retain the monthly reconciliations; it only retained the fiscal year-end reconciliations. Also, the State Agency did not perform monthly reconciliations between the Office of the Comptroller General's (OCG's) "Trial Balance By Subfund, Project, and GLA" (CSA 467CM) report and the State Agency's records for each federal project and phase code. However, the State Agency did prepare and retain the fiscal year-end reconciliation to the CSA 467CM report. According to management, the State Agency did not have the staff needed to perform the monthly reconciliations to the CSA 467CM report and considered the fiscal year-end reconciliation to be adequate.

(STARS Manual) states in part, the following:

Some errors are not directly detected by the system because they result from legitimate accounting codes being used incorrectly or from incorrect amounts . . .

The only way such errors can be detected is for agency accounting personnel to perform regular monthly reconciliations between their agency's accounting records and STARS balances shown on STARS reports . . .

To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be:

- Performed at least monthly on a timely basis (i.e., shortly after month-end).
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

Monthly reconciliations for revenues, expenditures, and ending cash balances must be performed at the level of detail in the Appropriation Act. In the past, some agencies have reconciled only ending cash balances. Reconciling only the ending cash balance does not provide sufficient assurance that receipts and disbursements were properly processed and that revenues and expenditures (or expenses) were correctly classified. Agencies with federal subfunds are required to perform monthly reconciliations between the CSA 467CM report (Trial Balance By Subfund, Project, and GLA) and the agency's records for each project and phase code.

We recommend that the State Agency develop and implement procedures to ensure that all required reconciliations are prepared, reviewed, and retained in accordance with State policy.

## **JOURNAL VOUCHERS**

During our test of journal vouchers, we noted 18 out of the 25 journal vouchers tested were not signed by an appropriate agency official and contained no evidence of a review by someone other than the preparer. Also, the journal vouchers were not initialed by the preparer. According to management, this was caused by oversight of the State Agency's personnel. Strong internal controls require that transactions be reviewed and properly approved by someone other than the preparer.

We recommend that the State Agency develop and implement procedures to ensure that journal vouchers are initialed by the preparer and reviewed and properly approved by someone other than the preparer.

## **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 a budgetary basis. We determined that the State Agency submitted to the Office of the Comptroller General (OCG) certain incorrectly prepared and/or misstated fiscal year-end 2000 closing packages.

To accurately report the State Agency'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, "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, Section 1.8 requires an effective, independent supervisory review of each completed closing package and the underlying workpapers and tracing all amounts from the agency's accounting records or other original sources to the working papers and accounting records and completion of the reviewer checklist and lists the minimum review steps to be performed. It strongly suggests the State Agency assign the appropriate people to prepare and review closing packages. In addition, Section 1.9 directs agencies to keep working papers to support each amount and other information they enter on each closing package form.

The following outlines the errors noted on certain 2000 closing packages.

### **Accounts Payable**

The State Agency misclassified \$423 of federal payables as earmarked payables. Additionally, payments totaling \$1,339 for goods and services received after June 30 were incorrectly reported as earmarked payables. The State Agency also estimated additional payables based on the above discrepancies. As a result, total federal payables were understated by \$789 and total earmarked payables were overstated by \$3,285.

Section 3.12 of the GAAP Manual states that "Payables at June 30 are amounts owed for goods and services that your agency both:

- Received on or before June 30.
- Paid for after June 30."

### **Grant/Entitlement Receivables and Deferred Revenue**

Federal payables are used in the calculation of grant receivables for the grant/entitlement revenues closing package. As stated above federal payables were understated by \$789 which in turn caused grants receivable to be understated. The State Agency also incorrectly calculated the total federal payable on a grant basis by an additional \$500 thereby causing a total understatement of grant receivables of \$1,289.

Section 3.3 of the GAAP Manual defines grant/entitlement receivables at June 30 as amounts that grantors owe the State at June 30.

### **Recommendations**

We recommend that the State Agency assign staff to prepare and review closing packages who are knowledgeable of the applicable GAAP; adequately trained in and familiar with the applicable GAAP Manual guidance and requirements; and thoroughly familiar with the applicable agency data for completion of the assigned 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 State Agency's closing package procedures should include an effective independent review before submitting the forms to the OCG. Each reviewer should be a responsible supervisor other than the preparer of the form(s) being reviewed. 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 methodology and formulas used in the supporting documentation and the computations in the working papers and on the closing package; and complete the applicable Closing Package Reviewer Checklist. When the State Agency's employees who are responsible for preparing and reviewing closing package forms do not understand the forms and/or instructions, they should contact the OCG for assistance.

## **TIMING OF DEPOSITS**

During our test of cash receipts, we noted 4 out of the 25 deposit packages tested contained receipts which were not deposited timely. The State Agency held these funds approximately two weeks to one month from the receipt of the funds until they were deposited. Because cash is the asset which is most vulnerable to loss, adequate internal control procedures require the agency to initiate accounting control over monies immediately upon collection and to timely deposit receipts. Furthermore, Part IB of each Appropriation Act (Proviso 72.1 of the 2000 Act) requires that all revenues be deposited at least once each week when practical. Similar findings were reported in the two prior engagements.

We recommend that the State Agency implement procedures to ensure that all receipts are deposited in a timely manner.

## **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 Report on Agreed-Upon Procedures regarding the accounting records and internal controls of the State Agency resulting from the engagement performed by other accountants for the fiscal year ended June 30, 1999, and dated May 24, 2000.

We determined that the State Agency has taken adequate corrective action on the findings regarding error in fixed assets closing package, federal funds not requested timely, accounting policies and procedures manual, error in operating lease closing package and schedule of federal financial assistance differences. In response to our inquiries, we were told that the State Agency has developed and implemented procedures to correct workshop bank account reconciliation deficiencies reported in the prior year. However, because the procedures were implemented after June 30, 2000, we did not perform tests to determine if the new procedures are operating effectively. The continuing deficiencies are described in Reconciliations and Timing of Deposits 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

March 6, 2002

Mr. Tom Wagner  
State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, S.C. 29201

Dear Mr. Wagner:

We have reviewed the State Auditor's report of fiscal year 2000 and as requested authorize the release of the audit. There was one exception to the audit findings and we have enclosed our remarks with a copy on diskette and a listing of board members and their addresses.

Thank you for your assistance and if you have any questions or we can be of further assistance please contact Preston Coleman at (803) 896-6506 or [pcoleman@scvrd.state.sc.us](mailto:pcoleman@scvrd.state.sc.us).

Sincerely,

Larry C. Bryant  
Commissioner

PC: Preston Coleman  
Rick Elam  
Maisy Babbitt  
Eric Moore

South Carolina Vocational Rehabilitation Department  
Response to Auditor's Comments  
2000 State Audit

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

**WORKERS AND UNEMPLOYMENT COMPENSATION**

**RECONCILIATIONS**

**JOURNAL VOUCHERS**

**CLOSING PACKAGES**

**TIMING OF DEPOSITS**

We concur with these findings, monthly reconciliations were implemented just prior to the start of fiscal year 2002 and we will institute the necessary controls to ensure compliance for these other findings and recommendations.

**EMPLOYEE PROFILES**

The information contained on the Office of Human Resources (OHR) Profile form is entered by our Agency from information contain on the SCVRD Human Resources Action Form. The Agency form is considered the original source document and is maintained according to Archives and History record retention schedules in the individual personnel folders. This information can be compared to the Comptroller General's (OCG) Payroll Warrant Register for the budget source of fund codes or the departments list of budget codes to determine the source of funds. For permanent employees (FTE's) this information is available on OHR's system and when needed can be printed. OHR's Profile serves as convenience copy for the purpose of reconciling Agency data with OHR data.

11 copies of this document were published at an estimated printing cost of \$1.61 each, and a total printing cost of \$17.71. The FY 2000-01 Appropriation Act requires that this information on printing costs be added to the document.