

**SOUTH CAROLINA STATE AGENCY
OF VOCATIONAL REHABILITATION**

WEST COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 11, 2003

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, 2002, 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. 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 state agencies 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 Reconciliations 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 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; 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. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
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 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. Our finding as a result of these procedures is presented in Workers' and Unemployment Compensation Insurance in the Accountant's Comments section of this report.
4. We tested randomly selected recorded journal entries and operating transfers, and all 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. We found no exceptions as a result of the procedures.

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 obtained all monthly reconciliations prepared by the State Agency for the year ended June 30, 2002, and tested 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 they were accurate and complete. 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. We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's 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 2002. Our findings as a result of these procedures are presented in Reconciliations and Workers' and Unemployment Compensation Insurance 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 State Auditor's Report on the State Agency resulting from our engagement for the fiscal year ended June 30, 2001, 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, 2002, 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. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, 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. Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance 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
July 11, 2003

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 areas, 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.



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.

RECONCILIATIONS

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures (STARS) requires that all agencies perform regular monthly reconciliations of revenues, expenditures, federal programs, and ending cash balances in their accounting records and those in STARS as shown on the Comptroller General's reports in order to timely detect and correct errors. These reconciliations must be performed at least monthly on a timely basis, be documented in writing in an easily understandable format with all supporting workpapers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Furthermore, STARS states that errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or STARS as appropriate.

For fiscal year 2002 we noted the following deficiencies in reconciliations and reconciliation procedures:

1. The State Agency did not prepare monthly reconciliations of revenues by subfund and object code or reconciliations of expenditures by subfund.
2. Most of the reconciliations were dated by the preparer but only a few were signed. All reconciliations contained evidence that a review had been performed; however, the date of the review was not documented.
3. Workshop account reconciliations were performed for cash balances only. Monthly reconciliations of revenues and expenditures were not prepared.

A similar finding was described in the fiscal year 2001 and 2000 reports. According to management, the State Agency cannot perform reconciliations of expenditures by subfund or reconciliations of revenues by subfund and object code because the State Agency's accounting system cannot generate the reports the Finance staff needs to prepare the reconciliations. The State Agency's Finance department was told that it will be several years before the necessary reports can be generated.

We compared fiscal year 2002 expenditures recorded in STARS to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. We also compared fiscal year 2002 revenues recorded in STARS to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. Finance personnel were unable to provide adequate explanations for significant expenditure and revenue variances (workshop accounts) in several accounts. Again, this appears to be the result of weaknesses in the Agency's reconciliation policies and procedures and its financial accounting system.

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

WORKERS' AND UNEMPLOYMENT COMPENSATION INSURANCE

The State Agency paid one hundred percent of unemployment compensation insurance out of federal funds and paid a percentage of workers' compensation insurance out of state (approximately 41%) and federal (approximately 59%) funds. However, these percentages were not proportionate to the percentages of salaries paid from each fund. In addition, the Agency paid neither unemployment nor workers' compensation insurance out of earmarked funds, even though workshop employees are paid from those funds. Finance personnel indicated that this was done in order to meet Federal maintenance of effort requirements. A similar finding was described in the fiscal year 2001 and 2000 reports.

Proviso 63G.1. of the fiscal year 2002 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 the State Agency establish and implement policies and procedures to ensure that workers' and unemployment compensation insurance costs are charged equitably among all of its funds.

SECTION B - OTHER WEAKNESS NOT CONSIDERED MATERIAL

The condition described in this section has been identified as a weakness subject to correction or improvement but it is not considered a material weakness or violation of State Laws, Rules, or Regulations.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Each fiscal year, the Office of the State Auditor (OSA) obtains information to prepare the State's Schedule of Expenditures of Federal Awards from the agency-prepared Schedules of Federal Financial Assistance (SFFA). The State Agency's fiscal year 2002 SFFA contained various errors and included responses which indicated that the instructions for preparing and submitting the requested federal program information were not followed. Instructions for preparing the SFFA were sent to the State Agency in a letter from the OSA dated August 28, 2002.

During this engagement, we reviewed the State Agency's SFFA and supporting documentation and noted the following:

1. The State Agency incorrectly reported several program names on the SFFA.
2. The State Agency omitted the Social Security Benefits Planning, Assistance, and Outreach Program from the SFFA; therefore \$211,134 in revenues, \$208,007 in expenditures, and an ending balance of \$3,127 were not reported. Also, because of this omission, \$3,127 of deferred revenue was not reported on the grant/contribution receivables and deferred revenue closing package for fiscal year 2002.
3. The State Agency reported \$1,910,500 under one of the Disability Determination grants as a negative expenditure. Since the amount did not represent fiscal year 2002 expenditures, it should have been reported as an "other deduction".

We recommend the State Agency strengthen its procedures to ensure the instructions issued by the State Auditor's Office for preparation of the Schedule of Federal Financial Assistance are followed. The State Agency should also strengthen its review procedures to assist with detection and correction of errors and omissions before submission to the State Auditor's Office.

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, 2001, and dated October 18, 2002. We determined that the State Agency has taken adequate corrective action on the findings entitled Timing of Deposits and Closing Packages. The continuing deficiencies are described in Reconciliations and Workers' and Unemployment Compensation Insurance in Section A of the Accountant's Comments in this report.

MANAGEMENT'S RESPONSE

**Agree-upon Procedures Audit
State Fiscal Year 2002**

Response to Accountant's Comments

Reconciliations

1. *The State Agency did not prepare monthly reconciliations of revenues by subfund and object code or reconciliations of expenditures by subfund.*
2. *Most of the reconciliations were dated by the preparer but only a few were signed. All reconciliations contained evidence that a review had been performed; however, the date of the review was not documented.*
3. *Workshop account reconciliations were performed for cash balances only. Monthly reconciliations of revenues and expenditures were not prepared.*

The Finance staff concurs with these findings and is working with the Information Systems department to develop the necessary queries to facilitate the reconciliation process.

Workers' and Unemployment Compensation Insurance

We recommend the State Agency establish and implement policies and procedures to ensure that workers' and unemployment compensation insurance cost are charged equitably among all funds..

The Finance staff concurs with this recommendation and will take the necessary steps to implement corrective action. The Agency has experienced nearly a 30% cut in state funding therefore, meeting Federal Maintenance of Effort (MOE) requirements is not possible at this time. Efforts are underway to obtain a temporary waiver in the MOE requirement and avoid any loss of Federal funds.

Schedule of Federal Financial Assistance

We recommend the State Agency strengthen its procedures to ensure the instructions issued by the State Auditor's Office for preparation of the Schedule of Federal Financial Assistance are followed.

The Finance staff concurs with this recommendation and will take the necessary steps to implement corrective action.

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