

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 2003

State of South Carolina



Office of the State Auditor

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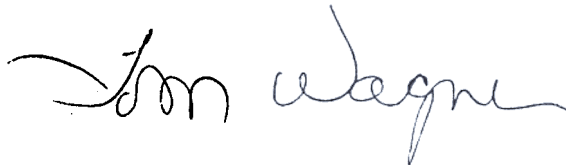
June 28, 2004

The Honorable Mark Sanford, Governor
and
Members of the Disabilities and Special Needs Commission
South Carolina Department of Disabilities and Special Needs
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Disabilities and Special Needs for the fiscal year ended June 30, 2003, 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/sag

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

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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 South Carolina Office of the State Auditor and management of the South Carolina Department of Disabilities and Special Needs (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2003, in the areas addressed. The Department'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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 from sources other than State General Fund appropriations with those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

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



• **SCACPA**

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1st Global Insurance Service, Inc.*

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, were bona fide disbursements of the Department, 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 selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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

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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- 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 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 adequate to detect errors and/or irregularities.
- We compared current year payroll expenditures to those of the prior year; and 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

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

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded journal entries, 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, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented 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 Department 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 selected transactions were adequate to detect errors and/or irregularities.

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 Department for the year ended June 30, 2003, and inspected selected reconciliations of balances in the Department'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 Department'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 Department's accounting records and/or in STARS.

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

7. Compliance

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties the Department'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 2003.

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, 2003, prepared by the Department 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; 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 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, 2003, prepared by the Department 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 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 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 for the information and use of the Governor, the South Carolina Office of the State Auditor and the Commission and management of the South Carolina Department of Disabilities and Special Needs and is not intended to be and should not be used by anyone other than these specified parties.

Roger A. Lalan, PA

June 29, 2004

ACCOUNTANT'S COMMENTS

SECTION A – CURRENT YEAR FINDINGS

1. NON-PAYROLL DISBURSEMENTS AND EXPENDITURES

Our testing of disbursements disclosed that the breakdown of the amounts posted to various general ledger accounts for one voucher was not correct. The amounts were incorrectly allocated between in-state meals and registration fees. Also, we noted that one invoice from a vendor contained extension errors and items that were not included in the approved purchase order resulting in an overpayment to the vendor.

Generally accepted accounting principles require the accurate posting of expenditures by general ledger account. Good internal controls require that vendor invoices be checked for accuracy and compared to the approved purchase order for quantity and amounts before they are processed.

We recommend that the Department thoroughly review the general ledger coding before processing vouchers to ensure that expenditures are properly charged and that it implement procedures to ensure that all vendor invoices are accurate and in accordance with the purchase orders before they are processed for payment.

2. CLIENT FUNDS DISBURSEMENTS TEST

Our testing of disbursements from client funds disclosed that one item purchased was not entered on the patient's shopping worksheet as required by Department policy to maintain an inventory for the patient.

We recommend that the Agency properly record all items purchased on the patient's shopping worksheet to ensure an accurate accounting of the individual's personal property.

3. JOURNAL ENTRIES

Our testing of journal entries disclosed that the Department recorded an entry that resulted in incorrect balances being posted in the general ledger for retainage payable accounts. The journal entry did not have any supporting documentation attached to support the entry.

Good internal controls require that all journal entries have supporting documentation attached.

We recommend that the Agency follow its policies and procedures and ensure that all journal entries are supported by adequate documentation before they are approved and posted to the general ledger.

4. CAPITAL ASSETS CLOSING PACKAGE

Our testing of the capital asset closing package disclosed the following errors:

- A. The amount reported as outstanding construction commitments was actually the amount that had been expended and not the amount for which contracts had been entered into but not spent.
- B. The Department reported a \$51,515 contribution received for the purchase of a vehicle as a refund of expenditures on the closing package reconciliation form instead of contribution revenue.

Section 3.8 of the GAAP Closing Package Manual describes how to determine the amount to be reported for construction commitments outstanding. General accepted accounting principles require that contributions be reported as revenue and not as reductions of expenditures.

We recommend that additional care be taken in the preparation and review of the capital assets closing package and in ensuring that all receipts of the Department are coded correctly.

5. ACCOUNTS PAYABLE CLOSING PACKAGE

Our testing of the accounts payable closing package disclosed the following errors:

- A. The Department reported \$12,256 in both accounts payable total and the retainage payable total thereby reporting the same amount twice.
- B. Accounts payable were understated by \$272.
- C. The amounts reported for retainage payable were taken from the general ledger and these amounts did not agree with the amounts on the contract draw request.

Section 3.12 of the GAAP Closing Package Manual describes how to determine the amounts to be reported for accounts payable and retainage payable. Good internal controls require the preparation of accurate and complete closing packages.

We recommend that additional care be taken in the preparation and review of the closing packages. All reported amounts should be supported by documentation maintained by the Department.

6. CASH AND INVESTMENTS CLOSING PACKAGE

Our testing of the cash and investments closing package disclosed that some of the accounts reported by the Department were based on the amounts recorded in the general ledger which did not agree with the actual petty cash balance or reconciled bank balances. One balance was overstated by \$2,680 because of an error in picking up the reconciled balance.

Section 3.1 of the GAAP Closing Package Manual describes how to determine the amounts to be reported for cash and investments.

We recommend that additional care be taken in the preparation and review of the closing packages. The Department should determine the reason for the differences between the actual reconciled balances and the amounts recorded in the general ledger.

7. PATIENT AND STUDENT ACCOUNTS RECEIVABLE AND RELATED ACCOUNTS CLOSING PACKAGE

Our testing of the amounts reported in the patient and students accounts receivable and related accounts closing package disclosed that the amounts reported were based on the amounts of gross receivables recorded in the general ledger which did not agree to the detailed subsidiary listings. In addition, we noted that the detailed subsidiary listing contained credit balances. The Department explained that the credit balances were a result of billings not being posted which resulted in an understatement of the accounts receivable. In addition, we noted that the amount reported for uncollectibles was inaccurate and, that the Department had not written off any receivables since 2000.

Section 3.4 of the GAAP Closing Package Manual describes how to determine the amounts to be reported for receivables.

We recommend that additional care be taken in the preparation and review of the closing packages. Additional care should be taken to ensure that the subsidiary ledger is accurate and that the allowance for doubtful accounts is adjusted annually based on accurate calculations. The accounts receivable and allowance accounts should be reduced for all old uncollectible accounts.

8. COMPENSATED ABSENCES CLOSING PACKAGE

Our testing of the documentation supporting the amount reported in the compensated leave closing package disclosed the following:

- A. The Department could not locate leave request forms supporting 2.5 hours of leave taken by one employee.
- B. One employee's leave balance was overstated by 8 hours.
- C. The leave report was run as of July 22, 2003 and the Department had to adjust the leave balances for leave taken between July 1, 2003 and July 22, 2003. The amount of hours in total that was adjusted agreed to the supporting documentation but the hours by individual employee did not agree.

Section 3.17 of the GAAP Closing Package Manual requires the Department to keep all supporting documentation for the schedule of compensated absences that includes the accumulated accrued unused annual leave earned by its employees which is the actual annual leave balance in the Department's records for each employee at June 30.

We recommend that the Department ensure that all leave slips are maintained to support the leave taken and that the leave report be run as of June 30th before any leave taken in the next fiscal year is entered.

8. GRANT/CONTRIBUTION RECEIVABLES AND DEFERRED REVENUE CLOSING PACKAGE

Our testing of the grant/contribution receivables and deferred revenue closing package disclosed that the beginning balances per the grants analysis worksheet which is used by the Department in preparing the closing package did not agree to the prior year's ending balances. In addition, we noted that the ending balances shown for the current year did not agree with the general ledger or the schedule of federal financial assistance.

Section 3.17 of the GAAP Closing Package Manual contains instructions for the preparation of this closing package.

We recommend that additional care be taken in the preparation and review of the closing package.

MANAGEMENT'S RESPONSE

ATTACHMENT A

Stanley J. Butkus, Ph.D.

State Director

Robert W. Barfield

Deputy State Director

Administration

Ronald G. Dozier

Associate State Director

Operations

Kathi K. Lacy, Ph.D.

Associate State Director

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Ronald Forrest

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July 01, 2004

Mr. Barry Laban
Rogers & Laban, P.A.
1919 Bull Street
Columbia, South Carolina 29201

Dear Mr. Laban:

In reviewing your findings as a result of our Agreed Upon Procedures Audit for the fiscal year ending June 30, 2003, the South Carolina Department of Disabilities and Special Needs concurs with each item. We have and are continuing to implement procedures to correct these errors and or oversights.

For questions concerning our corrective action plans, please contact me at 898.9698, or Michael Thom at 898.9736. We appreciate your help and recommendations during your audit, and your staff was a pleasure to work with.

Sincerely,

A handwritten signature in blue ink that reads "Renee R. Moore".

Renee R. Moore
Director of Finance

RRM

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