

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES
COLUMBIA, SOUTH CAROLINA*

June 30, 2015



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

May 31, 2016

The Honorable Nikki R. Haley, Governor
and
V. Susan Alford, State Director
South Carolina Department of Social Services
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Social Services for the fiscal year ended June 30, 2015, was issued by The Hobbs Group, 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,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

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June 30, 2015

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

May 31, 2016

Mr. George L Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
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 Social Services (the "Agency"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2015, in the areas addressed. The 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 25 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 25 selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- 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 account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted, 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 (\$5,800 – general fund, \$1,200,000 – earmarked fund, \$3,000 – restricted fund, and \$6,300,000 – 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 25 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 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 25 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted 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 (\$480,000 – general fund, \$1,100,000 – earmarked fund, \$3,250 – restricted fund, and \$6,400,000 – 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 25 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 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 payroll transactions for 25 selected new employees and 25 individuals 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 paycheck was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted, 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 (\$480,000 – general fund, \$1,100,000 – earmarked fund, \$3,250 – restricted fund, and \$6,400,000 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

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 25 recorded journal entries, 5 operating transfers, and 25 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 transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. Composite Reservoir Accounts

Reconciliations

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2015 and inspected 4 selected reconciliations of balances in the Agency's accounting records to those reflected on the State Treasurer's Office monthly 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 Agency's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records.

Cash Receipts and Revenues

- We inspected 25 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 25 selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

Non-Payroll Disbursements and Expenditures

- We inspected 25 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 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 25 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations selected were chosen randomly. The cash receipts and disbursement transactions were selected randomly. We found no exceptions as a result of the procedures.

6. 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 provisos as listed in the Appropriation Act work program, and Agency specific provisos, if applicable.

Our finding as a result of the procedures is presented in Accounting Services Approval in the Accountants' Comments section of this report.

7. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our findings as a result of the procedures are presented in Reporting Packages in the Accountants' Comments section of this report.

8. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2015, prepared by the 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.

9. Status of Prior Finding

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from the engagement for the fiscal year ended June 30, 2014, to determine if the Agency had taken corrective action.

Our findings as a result of these procedures are presented in Reporting Packages and Accounting Services Approval in the Accountants' Comments section of the report.

The concept of materiality does not apply to findings to be reported in the agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. The State Auditor and management of the Agency has agreed that the following deficiencies will not be included in the Independent Accountants' Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

We were not engaged to and did not conduct an examination, 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, management of the South Carolina Department of Social Services, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA
Columbia, South Carolina

ACCOUNTANTS' 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.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate, and prepared in accordance with instructions, complete, and timely." We tested the Department's fiscal year 2014-15 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following errors were noted during our testing of reporting packages:

Master Reporting Checklist – Capital Leases

The Department's capital leases on the Master Reporting Checklist contained errors because capital lease information provided to the preparer of the checklist was incomplete. The information provided to the preparer excluded one asset with a book value of approximately \$9 million. In addition, accumulated depreciation was understated by \$3.6 million and current year amortization/ depreciation was understated by \$1.8 million.

Cash and Investments Reporting Package

Our review of the reporting package disclosed that the Agency did not report the reconciled balance for the bank accounts listed on the Deposits with Banks Reporting Form.

Inventory Reporting Package

We obtained the Agency's valuation report which supports the reported inventory balance on the reporting package. We were able to reconcile the amounts on the valuation reports to the source documentation used to create the June 30 valuation report. However, subsequent to the reporting package submission, the Agency received information from several food banks that had not previously been included. The inventory data was updated, but this information was not sent to the Finance department so that an amended Inventory Reporting Package could be submitted. Using the source documentation, we determined the correct ending inventory balance to be \$1,101,458. The Agency's reporting package reported an inventory balance of \$1,245,425.

Prepaid Expenses Reporting Package

During our review of the supporting documentation, we noted 25 items that were mistakenly excluded from the prepaid reporting package. This resulted in the reporting package being understated by \$98,607.

Other Payroll Liabilities Reporting Package

We haphazardly selected twenty five employees from the Agency's SCEIS report of compensated absences to test the compensated absences liability. Two of the employees tested had understated leave balances on the report because leave approvals were processed after the date of the report. The cumulative effect on the year-end compensated absences liability was an understatement of approximately \$2,900.

Recommendation

We recommend the Agency implement procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are supported by the Agency's accounting records, are independently reviewed for accuracy and completed in accordance with instructions.

ACCOUNTING SERVICES APPROVAL

Chapter 19, Section 445.2025 of the South Carolina Code of Regulations requires State Auditor approval prior to contracting for auditing or accounting services.

The Agency procured professional accounting services during the previous fiscal year, but did not obtain State Auditor approval. The contract term is for a period of 5 years and retroactive approval of these accounting services was not given. Therefore, we continue this finding into the current year. We recommend the Agency develop and implement procedures to ensure that all required approvals are obtained prior to contracting for auditing and accounting services.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountant’s Comments section of the State Auditor’s Report on the Agency for the fiscal year ended June 30, 2014, and dated November 5, 2015. We determined that the Agency has taken adequate corrective action each of the findings except we have repeated the condition in the finding titled Reporting Packages and Accounting Services Approval. In response to our inquiries, we were told that the Agency has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 2015, we did not perform tests of the new procedures.

MANAGEMENT'S RESPONSE

Attachment A

DSS

Serving Children and Families

V. SUSAN ALFORD
STATE DIRECTOR

NIKKI F. HALEY
GOVERNOR

June 8, 2016

George L. Kennedy, III, CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Kennedy:

The South Carolina Department of Social Services respectfully submits the following release for the 2015 State Fiscal Year Agreed-Upon Procedures (AUP) Audit. We wish to have the following responses and comments regarding the matters discussed in the Accountant's Comments included in your final report.

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS:

REPORTING PACKAGES

Master Reporting Checklist – Capital Leases

We concur with the finding. This is the same finding as last year. In December 2015, when this finding was made, it was too late to correct the FY 2014-15 Master Reporting Checklist. The information concerning this asset had been forwarded to the STO on July 28, 2014; however, we failed to revise the Master Reporting Checklist. We have updated our process to include reviewing lease documents as they occur, which is as suggested in best accounting practices. This will enable us to locate and report capital leases properly.

Cash and Investments Reporting Package

We concur with the finding. The Agency has developed a procedures to insure the proper reporting of reconciled account balances in accordance with Comptroller General guidelines.

Inventory Reporting Package

In July 2015, the program area provided to Finance, the Commodity Supplemental Food Program inventory. This report showed an ending balance of \$1,245,425.09. After the Inventory Reporting Package was submitted, the program area received additional information from several Food Banks. Finance will work with the program area to ensure that any updates to the inventory after the Inventory Reporting Package has been submitted are included.

Prepaid Expenses Reporting Package

We concur with the finding of overstating the prepaid expense by \$98,607. This occurred because we only reported new prepaids entered into during FY2014-15. Changes have been implemented to code all Prepaid Expenses for the fiscal year, regardless of the year entered into, within the header text and the accounts are reviewed monthly to ensure accuracy.

Other Payroll Liabilities Reporting Package

We concur with the finding. For one of the two employees noted, the supervisor did not approve work hours until July 13, 2015. On the other employee noted, the employee notified HR in September 2015 that their leave accrual rate was incorrect. The Department of Social Services will continue to encourage all leave approvers (i.e., managers and supervisors) and human resource liaisons, to have leave time submitted and approved during the actual month of the event.

Accounting Services Approval

We concur with the finding. We procured professional accounting services during the previous fiscal year, but did not obtain State Auditor approval. The contract term is for a period of five years and retroactive approval of these accounting services was not granted. We have implemented a new policy that all contracts for accounting and auditing services negotiated on behalf of the Internal Audit Division (IAD) must have approval from the Office of the State Auditor prior to the IAD requesting approval by other entities within the Agency.

If you have any questions regarding our management's responses, please contact me at 803-898-7225.

Sincerely,

A handwritten signature in black ink that reads "William F. Bray, Jr." The signature is written in a cursive style with a large, stylized initial "W".

William F. Bray, Jr.
Director of Financial Services