SOUTH CAROLINA
DEPARTMENT OF SOCIAL SERVICES

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2001

CONTENTS

State of South Carolina

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 9, 2002

The Honorable Mark Sanford, Governor
and
Kim S. Aydlette, J. D., State Director
South Carolina Department of Social Services
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Social Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2001, 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. 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, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over food stamp coupons and Electronic Benefit Transfer (EBT) cards. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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 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 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 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 findings as a result of these procedures are presented in Payroll and Employer Contributions in the Accountant's Comments section of this report.

4. We tested selected recorded journal entries, operating transfers, 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. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

5. We tested 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 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 Department for the year ended June 30, 2001, and tested 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 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.

7. We tested 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 2001. Our findings as a result of these procedures are presented in Specific Provisos and Annual Report 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 Agreed-Upon Procedures regarding the accounting records and internal controls of the Department resulting from the engagement performed by other accountants for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Payroll and Employer Contributions, Closing Packages, and Specific Provisos in Section A of 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, 2001, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's <u>GAAP Closing Procedures Manual</u> 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, 2001, prepared by the Department 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 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 management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Tom Wagner

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.

PAYROLL AND EMPLOYER CONTRIBUTIONS

Pay Schedule

The Department of Social Services (Department or DSS) did not adhere to the State's "regular and permanent schedule for payment of employees" for specified twice-monthly payroll work periods when paying some employees. We tested personnel/payroll transactions and controls for 40 employees in a standard payroll test and 25 employees each in a termination test and a new hire test. For four, nine and eight payments, respectively, the employees were paid on the wrong State pay date but in accordance with the Department's alternate schedule which was internally developed primarily to facilitate the timely and accurate determination and payment of overtime and temporary pay. The Department pays all employees on the State's established pay dates but the corresponding payroll periods differ for certain of the Department's employee classes from those on the State's permanent schedule. For the affected DSS employees, the payroll period follows the Department's alternate payroll period schedule, based on bi-weekly timesheets.

Proviso 72.24. of Part IB of the 2000-2001 Appropriation Act continued the established regular schedule for payment of employees beginning with the first fiscal year 2001 pay period of June 2 through June 16 of the prior year to be paid on July 1 and continuing on a twice-monthly schedule thereafter. The proviso also authorizes the State Budget and Control Board "to approve any changes to this schedule where circumstances are deemed justifiable." [The Appropriation Act for each fiscal year contains a similar proviso.] The Department could not provide us with documentation of the State Board's approval for its alternate schedule.

We recommend the Department revise its procedures to ensure that it pays all of its employees in accordance with the State's established payroll period/paydate schedule until and unless the State Budget and Control Board authorizes an alternate schedule for certain DSS employee categories.

Human Resources Information System (HRIS) Online Profile

For 20 out of 40 payroll transactions tested during our standard test of payroll, we noted that funding source percentages reflected on the Department's HRIS online profiles did not agree to the percentages recorded on the Department's "PCA Table Listing Report." Further, for one out of the 40 payroll transactions tested, funding source percentages on the HRIS online profile did not agree to the percentages recorded on the "PCA Table Listing Report" or in the Office of the Comptroller General's Payroll Warrant Register. According to management, the Department rarely updates the HRIS online profiles to reflect changes in funding sources. Although management could not provide an explanation as to why these forms are not updated regularly, they did state that the Department is currently working to correct this problem.

Also, for one out of the 40 payroll transactions tested, the HRIS online profile did not properly reflect all changes to gross salary for the fiscal year. According to management, this employee's salary was incorrectly posted to HRIS when he transferred from another state agency in May 2000. DSS personnel had approved a ten percent increase which the individual received upon his transfer to the Department. However, as of August 2002, the HRIS had not been updated to reflect the salary increase.

The HRIS online profile is used to reflect and maintain position and employee information. Therefore, it is critical that all information be reported on an accurate and timely basis.

We recommend the Department evaluate its current system for updating the HRIS and the corresponding online profiles and establish procedures to properly reflect changes in employee salaries and funding sources.

Timely Submission of Personnel/Payroll Forms

In our terminations test of 25 employees, we noted that the Department initially overpaid three employees at termination, resulting in an adjustment of the employees' final pay for accrued annual leave and failed to remove four employees from the payrolls in a timely manner after they left the Department's employ. In our new hire test of 25 employees, we determined that for two temporary grant employees who terminated and were rehired as permanent employees, the Department paid their accrued annual leave and initial first pay on the same paydate.

When an employee terminates employment with the Department, the employee's supervisor must complete a DSS Form 1411 (Personnel Transaction Form) and submit it to Human Resource Management (HRM). For the exceptions described above, county supervisors did not submit the Form 1411's in time for HRM to process the transaction for the proper amount on the proper payroll period/paydate. DSS's written procedures specify a cutoff schedule for changes to payroll; however, according to management, despite recurring memos from HRM and the Department's State Director, the counties still fail to comply with the schedule.

An effective system of internal controls includes control procedures to ensure that payroll transactions are properly and timely processed. In such a control environment, employees are adequately trained and knowledgeable to properly and timely perform their assigned duties.

We recommend the Department develop and implement procedures to ensure county supervisors promptly and accurately notify HRM of all personnel transactions including terminations.

Employee Timesheet

The Department could not locate a timesheet (DSS Form 1855) for one transaction tested during our standard payroll test of 40 transactions. The employee was paid $385 on February 16, 2001 for overtime worked. According to management, time sheets are maintained at the county offices and copies are sent to HRM for processing. In this instance, management could not determine why the timesheet, or a copy of it, could not be located by the county or HRM.

State Human Resources Regulation 19-703.03 B. (19-707.01 for fiscal years 2002 and thereafter) requires each agency to keep an accurate record of all hours worked. The Department's Personnel Administration Policy and Procedure Manual also requires certain employees to properly complete and submit timesheets. Further, an effective system of internal controls includes control procedures to ensure that the entity prepares and maintains proper and adequate documentation in its employee files to support all personnel and payroll transactions.

Furthermore, the General Records Retention Schedules for Administrative and Personnel Records of State Agencies prepared by the South Carolina Department of Archives and History states the following regarding time and attendance records:

> **12-420. Time and Attendance Records**
> **A. Description:** Records concerning time worked by agency employees during a pay period. Information includes employee's name, section or organization unit, employee number, pay period, total time worked, and employee's signature.
> **B. Retention:** 3 years; destroy.

We recommend the Department strengthen its policies and procedures to ensure all employee timesheets are properly maintained in accordance with State, Federal, and Departmental guidelines.

Employer Contributions

Our testing of the percentage distribution of recorded payroll and fringe benefit expenditures yielded a significant variance in the general fund. According to discussions with management, a journal entry (JE00180) dated October 25, 2000 moved approximately $425,000 of employer contribution expenditures from federal to state funds. This journal entry was prepared to align the Department's accounting system to federal reports due to a maintenance of effort adjustment, a state/federal split percentage adjustment and a prior year audit finding. However, the adjustment was not allocated properly between personal services and employer contribution expenditures. Also, the Department allocated fringe benefits expenditures on two adjusting journal entries (JE00776 and JE00772) using an incorrect percentage, resulting in a $19,603 understatement.

We also compared the percentage change in personal service expenditures to the percentage change in employer contributions. Our test revealed a significant variance in restricted funds. During fiscal year 2001, restricted fund salaries and other expenses increased. Direct salaries and some employer contributions for employees who work under the Managed Treatment Services (MTS) contract are charged to medicaid (earmarked funds) with a match paid from the restricted fund which is funded by Education Improvement Act (EIA) funds. Other employer contributions are included in a cost pool, which is funded by earmarked funds with a state match. During the year, the Department prepares journal entries to move the employer contributions related to MTS (included in the cost pool) to restricted funds. According to management, because of the increased expenditures there were less EIA funds available to pay the appropriate amount of related employer contributions; therefore, the Department paid remaining unfunded employer contributions out of state funds. Management estimated that $257,700 of related employer contributions were paid from state funds but should have been paid from restricted funds.

Proviso 63G.1. of the fiscal year 2000-2001 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 Department establish and implement procedures to ensure that employer contribution costs are properly allocated in future periods. We also recommend procedures be strengthened to ensure journal entries are properly prepared and reviewed and approved by appropriate personnel prior to being posted to the general ledger.

Personnel Records

The Department did not complete annual Employee Performance Management System (EPMS) appraisals due during fiscal year 2001 for one out of forty employees included in our standard test of payroll transactions. In fact, the individual's personnel file did not contain any evaluations even though she was hired in June 1998.

According to discussions with management and further review, we noted that the Department's Human Resource Management Division provides monthly reports to managers which identify evaluations that are past due. Those lists show that numerous evaluations are past due. Personnel stated that it is difficult for the Human Resource Management Division to enforce the guidelines relating to preparation of EPMS's.

State Human Resources Regulation 19-704.02 A. (19-715.01 C. effective July 1, 2001) states the following:

> Each agency shall develop an Employee Performance Management System (EPMS) that shall function as an effective management tool within the agency and provide a sound process for the evaluation of the performance and productivity of its employees.

Further, State Human Resources Regulation 19-708.03 A. (19-720.02 A. effective July 1, 2001) requires each agency to maintain copies of all annual performance appraisals in an employee's personnel file.

Directive Memo D01-10, dated February 22, 2001 from the State Director states in part, the following:

> The timely completion of the Employee Performance Management System (EPMS) of each of our employees is very important to both you and the employee. The EPMS is a tool which serves many purposes. For instance, the EPMS impacts such activities as disciplinary actions, promotions, substandard job performance, reduction in force retention credits, grievances, etc. And, of course, the EPMS process is most important because it requires communication between the employee and the supervisor regarding how to improve performance and what is expected of the employee.

Additionally, Chapter 15, "Employee Performance Management System", of the Department's Personnel Administration Policy and Procedure Manual states that it shall be mandatory for all raters to be evaluated on the timely completion of each employee's performance appraisal.

We recommend that the Department timely complete annual performance evaluations and maintain copies of all annual EPMS documents in each employee's personnel file.

CLOSING PACKAGES

Introduction

The Office of the Comptroller General (OCG) 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 Department submitted to the OCG certain incorrectly prepared and/or misstated fiscal year-end 2001 closing packages.

To accurately report the Department'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 working papers and accounting records and completion of the reviewer checklist and lists the minimum review steps to be performed. 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 2001 closing packages.

Fixed Assets

Department personnel could not provide adequate supporting documentation for $3,800,000 reported on the General Fixed Assets Summary Form as "Net Corrections to Prior Year Balances". According to Department personnel, the employee responsible for maintaining this documentation could not locate it, and the costs associated with recreating the file exceeded the benefits.

GAAP Manual Section 3.8 includes instructions that require retention of working papers supporting all information entered on the summary form. In addition, an effective internal control system requires that adequate supporting documentation be prepared and retained to support transactions.

Compensated Absences

To verify the accuracy of the reported leave liability, we tested the June 30, 2001 balances for 25 employees listed on the Department's "Total Annual and Compensatory Leave Balances for Fiscal Year Ending 2000-2001" report, the Department's supporting documentation for the Compensated Absences Summary Form. For two employees, the annual salary recorded on the report did not agree to the annual salary on the Human Resources Information System (HRIS) online employee profile. Upon investigation, we noted that certain pay increases for these employees were not keyed into the payroll system in a timely manner; therefore, these increases were not reflected on the report. For one employee, a one percent merit increase effective June 2, 2001, was not keyed into the payroll system until June 26, 2001. According to Department personnel, a pay increase must be keyed into the system in time for the July 1 paydate in order to be included in the Total Annual and

Compensatory Leave Balances Report for that fiscal year. For another employee, a one and a half percent general increase effective June 2, 2001, was not keyed into the payroll system until December 19, 2001, because the employee was in leave without pay (LWOP) status as of June 30, 2001. According to Department personnel, if an employee is in LWOP status, the general increase is not keyed into the system until the employee returns to pay status.

GAAP Manual Section 3.17 states, " . . . The compensated absence liability for an employee is based on the daily or hourly pay rate (dollars and cents) that is in effect at June 30. Because of the State's 'payroll lag', the *pay rate in effect at June 30* includes the following pay increases: • General pay increases (such as cost-of-living increases) that the General Assembly authorizes to be paid on July 1. • Individual employee pay increases (such as merit or promotional increases) with June effective dates to be paid in July or later in the new fiscal year."

Cash and Investments

For two Senior Nutrition Program bank accounts, the Department reported bank balances of $99,992 and $29,570 on the cash and investments summary form because general ledger accounts have not been established for these bank accounts. We also noted that petty cash accounts maintained by the county offices are not included in the Department's cash and investments closing package.

In addition, the closing package was due on July 31, 2001, but the Department did not submit a final version to the OCG until October 2, 2001 because data was not received from the county offices in a timely manner. The closing package was originally submitted to the OCG on July 30, 2001. However, it was amended on August 20, 2001, and again on October 2, 2001, to include information from the county offices. According to a Departmental directive memo dated June 15, 2001, county directors were supposed to submit the required information to be reported on this closing package to the State Office by July 20, 2001.

Section 3.1 of the GAAP Manual requires agencies to report book balances for "Bank Cash Accounts" on the cash and investments summary form. It also states that GAAP requires that the State's balance sheet show the amount of cash and investments under State control at midnight on June 30. This includes cash and investments on hand, in financial institutions, or held by trustees at June 30. Based on our discussions with representatives from the OCG the petty cash accounts located at the county offices should be included on the Department's cash and investments summary form. Furthermore, an effective system of internal controls requires that financial and related information be recorded in the accounting and other agency records.

Accounts Payable

During our review of the fiscal year 2001 accounts payable closing package, we determined the Department overstated amounts reported for GAAP fund codes 1001 (general fund) and 8005 (federal funds) by $2,053 and $46,932, respectively, and understated the amount reported for GAAP fund code 2005 (earmarked funds) by $399. Misstatements in the reported federal payable also resulted in a misstatement in the reported amounts on the grant/entitlement revenues closing package (See related comment at Closing Packages – Grant/Entitlement Revenues). We noted the following deficiencies resulting in these misstatements:

1. One voucher included expenditures for 22 clients for services rendered after June 30, 2001, resulting in a $23,771 overstatement.
2. The Treatment Services payable was understated by $20 due to a mathematical error by Department personnel.
3. Vouchers were paid in fiscal year 2002 that included payments for both fiscal years 2001 and 2002. The Department incorrectly estimated the amount payable for fiscal year 2001, resulting in an understatement of $1,134.
4. One voucher was included in the accounts payable amount twice, resulting in an overstatement of $26,111.
5. The amount used to allocate accounts payable for projected county expenditures was incorrect and did not agree to the "County Expenditures Statement" for one county, which resulted in a total understatement of $142.

GAAP Manual Section 3.12 provides guidance for preparation of the accounts payable closing package. Those instructions define an accounts payable at June 30 as amounts owed for goods and services that are received on or before June 30 and paid for after June 30.

Grant/Entitlement Revenues

During the preparation of the grant/entitlement revenues closing package, the Department omitted three vouchers which exceeded the $1,000 criteria used to allocate costs to various grants. This omission which occurred because of a clerical error, resulted in a $6,177 understatement of grant/entitlement receivables and a $12,354 understatement of grant deferred revenue. Furthermore, errors noted on the accounts payable closing package resulted in a $46,932 overstatement of federal payables. In turn, the amount of payables used to calculate the amounts reported on the grant/entitlement revenues closing packages is also overstated (See related comment at Closing Packages – Accounts Payable). The Department also omitted the FEMA Flood Grant, CFDA #83.543, from the grant analysis worksheet which resulted in a $109,422 understatement of grant deferred revenue. The preparer of the closing package could not explain why he excluded the grant from the worksheet.

GAAP Manual Section 3.3 provides guidance for the preparation of the grant/entitlement revenues closing package.

Operating Leases

For one out of sixteen leases tested, the Department incorrectly calculated net lease payments for fiscal years 2002 through 2004, resulting in a $3,596 understatement for fiscal years 2002 and 2003 and a $2,097 understatement for fiscal year 2004. The incorrect amounts were reported on the lease register and subsequently included in the total future net minimum lease payments reported on the operating leases summary form. According to Department personnel, the employee who prepared the lease register for this particular lease incorrectly recorded the monthly lease payment because of a clerical error.

GAAP Manual Section 3.19 provides guidance for the preparation of lease registers and the operating leases summary form. In addition, those instructions require working papers that support all information entered on the lease registers.

Recommendations

We recommend that the Department implement procedures to ensure that all future closing packages contain accurate and complete information in accordance with the GAAP Manual instructions. As required by the GAAP Manual, the Department's closing package procedures should include an effective independent review before submitting the forms to the OCG. 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. Also, the Department should implement procedures to ensure that all future closing packages are submitted in accordance with the schedule as outlined in the GAAP Manual.

We also recommend that the Department maintain the appropriate supporting documentation for all transactions. Procedures should be established to ensure that supporting documents are properly filed and organized in a logical manner to facilitate retrieval. We further recommend the Department implement fiscal year-end procedures to ensure all applicable pay increases are entered into the payroll system for inclusion into the appropriate reports. In addition, we recommend the Department establish general ledger accounts for the Senior Nutrition Program bank accounts, and include all cash in the cash and investments closing package.

RECONCILIATIONS

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures (STARS Manual) 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 working papers 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.

We compared fiscal month (FM) 13 cash balances to amounts recorded in the Department's general ledger (DAFR 9110) "Statement of Cash by Fund" report and noted the following differences:

Subfund	Amount Recorded in STARS	Amount Recorded in the DAFR 9110	Net Difference
3442	$1,478,588.55	$1,318,288.69	$160,299.86
5002	$2,465,571.35	$2,199,012.15	$266,559.20

According to management, these differences occurred when journal entries were used to record statewide indirect costs for the quarters ending December 2000 and March 2001 in the Department's general ledger. The corresponding entries were not recorded in STARS until fiscal year 2002. We also noted numerous differences ranging from a few cents to over $4,000 when comparing expenditures recorded in STARS to those recorded in the Department's DAFR 9424 "Appropriation Summary Status" report. The unexplained differences remained because the Department prepared the FM 13 cash and expenditure reconciliations using balances from a preliminary (pre-close) general ledger. According to

Finance department personnel, these reconciliations were performed using reports with an August 16, 2001 run date. The Department did not close its fiscal year 2001 books until September 2001; therefore, adjustments were likely made between the date the reports were run and final close out. We were told that personnel in Finance were given no other reports after close out; therefore, final year-end reconciliations were not completed.

We recommend the Department strengthen its procedures to ensure that final year-end reconciliations are prepared and reviewed in accordance with State policy; that all reconciling items are identified; and that all detected errors in the Department's balances in accounting records and in STARS are promptly corrected.

SPECIFIC PROVISOS

The following comment was included in the Accountant's Comments section of the Report on Agreed-Upon Procedures prepared by other accountants for the fiscal year ended June 30, 2000, and dated May 14, 2001:

> Proviso 13.14 of both the 1999 and 2000 South Carolina Appropriation Acts provided for the establishment of an Electronic Benefits Transfer System and the submission of a status report on the implementation of the system to the Senate Finance and House Ways and Means Committees by July 1 of the fiscal year. This System was never implemented and the status reports were never filed.
>
> Proviso 13.1 of the 1999 and 2000 South Carolina Appropriation Acts included the following provision that should be a part of Proviso 13.2:
>
> > Funds of $800,000 collected under the Child Support Enforcement Program (Title IV D) which are State funds shall be remitted to the State Treasurer and credited to the General Fund of the State. All State funds above $800,000 shall be retained by the Department to fund Self-Sufficiency and Family Preservation and Support initiatives.
>
> Proviso 72.50 of both the 1999 and 2000 Appropriation Acts require each agency to conduct an annual jurisdictional audit that would have disclosed the above discrepancies.

The same requirement is included in Proviso 72.46. of the fiscal year 2000-2001 Appropriation Act.

Management responded to the prior year comment as follows:

> All provisos are reviewed annually before submission into the annual budget process. For the FY 2002-2003 budget year, the Department will look at eliminating or rewording Proviso 13.14 if the proviso is no longer needed. As for Provisos 13.1 and 13.2, both of the provisos are necessary but revisions are needed to clarify the sources of funds and uses of the funds retained by the Department.

Based on our review of the fiscal years 2001, 2002 and 2003 Appropriation Acts and discussion with management, the Department has made no revisions to these provisos.

We again recommend the Department conduct an annual jurisdictional audit for the purpose of identifying laws, regulations and provisions which are not being used, no longer need to be regulated or are incorrectly stated. After identifying the discrepancies, the Department should draft repeals or revisions and submit them to the General Assembly.

ANNUAL REPORT

The Department did not prepare and submit to the Governor and the General Assembly a full and detailed annual report of its fiscal year 2001 activities. Management indicated that it was unaware of this requirement.

Section 43-1-210 of the South Carolina Code of Laws, as Amended (Code of Laws) states:

> The director shall prepare and submit to the Governor and the General Assembly a full and detailed report of its activities and expenditures annually, including a statement of its personnel and the salaries paid, and shall likewise make such recommendations and suggestions as it shall deem advisable in the execution of its duties to the General Assembly.

Proviso 72.46. of the 2000-2001 Appropriation Act requires each agency to conduct a jurisdictional audit for the purpose of identifying laws, regulations, and provisos which are not being used or no longer need to be regulated. After identifying these laws, repeals are supposed to be drafted for submission to the General Assembly.

We recommend that the Department prepare and submit the annual report as required by the Code of Laws or as recommended in the comment titled “Specific Provisos”, conduct an annual jurisdictional audit for the purpose of identifying laws, regulations and provisions which are no longer needed or which require revisions.

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 Department resulting from the engagement performed by other accountants for the fiscal year ended June 30, 2000, and dated May 14, 2001. We determined that the Department has taken adequate corrective action on the comments Accrued Compensated Absences Closing Package Deficiencies and Journal Entry Deficiencies. The continuing deficiencies are described in Payroll and Employer Contributions, Closing Packages, and Specific Provisos in Section A of the Accountant’s Comments in this report.

MANAGEMENT’S RESPONSE

Payroll and Employer Contributions

Pay Schedule

It is respectfully requested that there is reconsideration of this finding. The Human Resources Director has reviewed this matter upon the preliminary finding with representatives from the Comptroller General's Office (CG) and the Office of Human Resources at the Budget and Control Board (OHR) and determined that the agency is in compliance with the referenced regulation. The CG representative provided the historical perspective for this regulation on its intent and those agencies that have requested an exemption. The few agencies that requested an exemption were those that did not wish to pay employees semi-monthly on the lst and the 16th when the state's pay dates changed in the mid 80's. The Director gave the names of these representatives to the Auditor(s) for contact and clarification concerning the agency's payroll schedule, and it is undetermined whether the Auditor(s) contacted these external experts.

As reviewed and for clarification, the agency's position is that it does operate in accordance to the cited Proviso. The payroll schedule reflects that employees are paid their normal salaries based on pay cycles of the 2nd to the 16th of the month. Salaried employees are paid on a semi-monthly basis for 24 pay periods.

The agency also pays non-exempt and hourly temporary employees in accordance to the Fair Labor Standards Act (FLSA), which requires overtime payment for hours actually worked in excess of 40 hours per week. In order to comply with this regulation and avoid estimating an employee's overtime pay, an overtime and hourly timesheet schedule was developed based on the individual workweeks for overtime purposes. Overtime hours are paid in addition to an employee's above referenced normal salary. In the Director's discussion with the CG and OHR offices, there was consensus that the overtime schedule is merely a supplement to the normal payroll schedule. It would be extremely difficult to adjust the schedule and not cause an undue administrative burden if it is amended as suggested by the Auditor(s). With regard to the temporary employees, again the schedule is necessary to ensure that employees have worked the hours to avoid overpayments.

Overall, if one reviewed both schedules and discussed the matter with the CG and OHR offices, it would be clear that the agency is in compliance with this regulation.

Human Resources Information System (HRIS) Online Profile

The agency will continue to work towards ensuring that the funding in this system is aligned with the funding source percentages. Over the past few months great strides and improvements have been made with this matter.

Timely Submission of Personnel/Payroll Forms

With regards to the termination actions, the agency will continue to strive for improvement. Out-stationed offices have "Personnel Liaisons" who are responsible for timely submission of paperwork, which overall is done quite well. These individuals have the agency's payroll schedule and the general rule is that actions should be submitted at least ten (10) working days before the effective date. Sometimes this is not possible with terminated employees for various reasons.

The finding concerning the temporary employee's annual leave payment occurring on the same date as the initial first pay is unclear of the reason it is an exception as it may relate to timely submission of pay actions. It should be noted that some agencies pay annual leave a pay period after the employee's last pay in order to recoup overpayments.

The agency takes the position that there are sufficient "internal controls" and that staff is properly trained. As mentioned, a system is in place to ensure timely processing of payroll actions.

Employer Timesheet

The agency's position is that it is in good standing with timesheet maintenance and is aware of the retention schedule.

Employer Contributions

The department concurs with the finding and will establish and implement procedures to ensure that employer contribution costs are properly allocated in future periods. The department will continue to strengthen the preparation, review, approval and documentation of all journal entries.

Personnel Records

The agency acknowledges that improvement is needed with timely submission of employee performance appraisals. The Human Resources Management Division will continue to notify management of overdue evaluations and encourage management to submit these important documents timely.

Closing Packages – GAAP

Fixed Assets

The supporting documentation for the $3,800,000 reported on the General Fixed Assets Summary Form as "Net corrections to prior years balances" could not be located at the Property Management Warehouse where our files are maintained. Apparently, while cleaning, the Data Entry Clerk accidentally shredded these records. Attempting to recreate the files would be almost, if not, impossible and the cost would be prohibitive.

As information, on September 18-19, 2001, Auditor Jason Bradenstein visited the warehouse and reviewed these records as part of a GAAP audit. Then, in August 2002 when the records were once again requested, they could not be located. We thoroughly searched the entire area and could not locate any of these files and must assume that they were destroyed.

We have corrected this deficiency by requiring that a duplicate set of deletion records be maintained in the GAFRS' office.

Compensated Absences

The agency acknowledges that the one percent increase was not processed timely, and it should be noted that processing this mandatory increase was administratively difficult due to the many requirements to ensure that employees were eligible for the pay raise before processing it.

It is unclear of the relevance for the finding concerning the delayed processing of the pay action for the employee on leave without pay as it related to the compensated absences report. Theoretically, the compensated absences report should not be jeopardized by this situation, because the employee should not have had any leave hours to be factored into the report.

Cash and Investments

The department agrees that some entries for the Senior Nutrition Program were not recorded on the agency's general ledger, in part because the State Treasurer's Office has been incorrectly recording entries on the books of DHEC and not DSS. A meeting is scheduled to discuss the program and modify the current process and procedures to ensure all cash balances are reflected in the accounting system.

Petty Cash accounts maintained at county offices are being reviewed to ascertain whether they are needed. If the accounts are deemed necessary, requests for approval will be submitted to the State Auditor's Office. Also, any maintained at the county offices will be included in future closing packages.

Steps have been taken to ensure timely submission by county offices of bank account balances for incorporation into the closing package.

Accounts Payable

We agree that errors were made in overstating and understating amounts reported in the GAAP closing package. Careful attention and accuracy will be stressed to personnel recording the transactions, as well as supervisory review of the resulting reports.

Grant/Entitlement Revenues

The agency concurs with the findings as listed. The preparation of the accounts payable package for inclusion in the Grant/Entitlement form has been revised to accumulate expenditures on an automated schedule for direct and allocated costs. This process will ease the review to ensure greater accuracy.

The FEMA Flood Grant CFDA #83.543 was not included on the FY 2001 year schedule or worksheet. The SFY 2002 grant analysis worksheet does include the FEMA Flood Grant.

Operating Leases

The department agrees that clerical errors were made in calculating net lease payments. Once again, accuracy and close attention will be stressed, as well as supervisory review, of these calculations. If necessary, additional training of involved personnel will be provided.

Reconciliation

The department agrees that entries for the statewide indirect costs for the second and third quarters of state fiscal year 2001 were not recorded in STARS until September 2001 of fiscal year 2002. This was due to an oversight by the Cost Allocation Department with retirement of an employee who recorded the GAFRS' entries. Procedures will be strengthened to ensure a prompt follow-up and resolution of all outstanding reconciling items.

We agree also that a final reconciliation of expenditures using the CG's 424 report was not completed even though the cash reconciliation was completed. Once again, procedures will be strengthened to complete the expenditures reconciliation.

Specific Provisos and Annual Report

Management concurs with the recommendations and will take the necessary steps to conduct the jurisdictional audit of all required provisos for the department. Additionally, the annual report cited will be prepared.

5 copies of this document were published at an estimated printing cost of $1.95 each, and a total printing cost of $9.75. The FY 2001-02 Appropriation Act requires that this information on printing costs be added to the document.