

June 30, 1999

The Honorable James H. Hodges, Governor
and
Ms. Elizabeth G. Patterson, J.D., 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, 1998, 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/trb

**SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES
STATE OF SOUTH CAROLINA**

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 1998

**SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES
STATE OF SOUTH CAROLINA**

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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 management of the South Carolina Office of the State Auditor and 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, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations with those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual items 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, 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 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 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage in employer contributions; and, computing the percentage distribution of 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 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 Section A in the Accountant's Comments section of this report.

4. We tested 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. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Section A in the Accountant's Comments section of this report.
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 accounting controls over the tested transactions were adequate. The items 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, 1998, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the 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 STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Section A 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 1998. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Comments section of the report on applying agreed-upon procedures on the Department resulting from our engagement for the fiscal year ended June 30, 1997 dated May 28, 1998 to determine if adequate corrective action has been taken. The deficiencies noted were corrected except as noted in Section A in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, 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 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 Sections A and B 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, 1998, 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. Our finding as a result of these procedures is presented in Section A in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users and is not intended to be and should be used by anyone other than these specified parties.

Columbia, South Carolina
June 14, 1999

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the Office of the State Auditor and the Department 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 Department is responsible for establishing and maintaining internal control. A material weakness is a condition in which the design or operation of one or more of the specific internal control components do 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.

ACCOUNTS PAYABLE CLOSING PACKAGE INCORRECT

Our review of the accounts payable closing package disclosed that one invoice for \$35,975 for services to be provided in July, 1998 was included in accounts payable as of June 30, 1998. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Section 3.12 of the GAAP Closing Package Manual prepared by the Comptroller General defines accounts payable as an amount due for which the Department receives the goods or services on or before June 30.

We recommend that additional care be exercised in preparing the schedule that supports accounts payable as of each year end.

RECONCILIATION DIFFERENCES

The monthly reconciliations of the Department's general ledger accounts to those in the State's accounting system (STARS) and the adjusting journal entries required by the reconciliations have not been timely prepared. The reconciliations for June 1998 were prepared in May 1999. We were unable to obtain support for three of the reconciling items for receipts, seven for expenditures and eight for cash.

Good accounting and internal control procedures require the Department to timely reconcile its general ledger accounts to those in STARS and maintain documentation to support the reconciling items.

We recommend that the Department review its reconciliation procedures with the responsible personnel. Also, the reconciliations for all accounts and the adjusted journal entries required should be timely prepared. If adjustments and/or reconciling differences occur, the cause should be determined and documentation should be retained with each monthly reconciliation to which it relates.

PAYROLL DEFICIENCIES

Our tests disclosed the following deficiencies regarding payroll:

- A. For one of the five terminations tested, the "employee profile" was missing. The employee profile is a printout showing various employee data, including the rate of pay. We had to obtain the required information from sources other than the employee file to verify the correctness of the final paycheck.
- B. The employee files did not include the following required documentation as required:
 - (1) Four files out of 25 tested did not contain Federal form W-4 which is required by Federal law.
 - (2) One file out of 25 tested did not contain Federal form I-9.
- C. One employee was overpaid \$600.12 in the August, 1997 payroll. The correct number of hours was not used to compute the employee's pay. The Department has written a letter to the employee requesting a refund.
- D. The majority of the employee files tested did not include sufficient documentation to support voluntary deductions.

Good business and internal control practices require the maintenance of accurate and complete documentation to support payroll expenditures, including deductions therefrom.

We recommend that a procedure be established to ensure payrolls are disbursed for the correct amounts and all required documentation be obtained and retained in the employee files for new hires, employees now employed and employees terminated in the future.

JOURNAL ENTRY DEFICIENCIES

Our tests of journal entries disclosed that of the 27 tested, 26 were not approved and 9 did not have adequate supporting documentation. Also, the journal entries did not include the written purpose and explanation for the entry.

Good accounting and internal control procedures require journal entries their purpose, be supported by adequate documentation and be approved.

We recommend that comprehensive procedures be prepared and followed by the personnel permitted to make journal entries.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The beginning of year balances included on the Schedule for the year ended June 30, 1998 did not agree with the end of year balances for the year ended June 30, 1997. An explanation for these variances was not available.

Also, the Federal Funds for one CFDA # shown on the Schedule did not tie-in to the general ledger. This deficiency was also found by the State auditors during their single audit but was not disclosed to us until we inquired of the difference.

Instructions issued by the State of South Carolina Auditor's Office requires an accurate and complete Schedule to be prepared and submitted by the Department.

We recommend that the Department's personnel prepare an accurate and complete Schedule and it be verified by the designated approval representative prior to submission.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

LEASE DEFICIENCIES

Our review of the operating lease schedule disclosed that there were numerous errors found and corrected by the Office of the Comptroller General. Also, we noted for certain of the leases that the amounts included for the final year amounts were the annual lease payment amounts instead of the actual amounts due for the partial year.

Section 3.19 of the GAAP Closing Package Manual prepared by the Comptroller General requires accurate and complete lease schedules to be prepared and submitted by the Department.

We recommend that additional care be used in the preparation and verification of the lease schedule prior to its submission.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Comments section of the report on applying agreed-upon procedures on the Department for the fiscal year ended June 30, 1997, dated May 28, 1998. The deficiencies were corrected except as noted in the Payroll Deficiencies comment included in Section A.

MANAGEMENT'S RESPONSE

APPENDIX A

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES



Elizabeth G. Patterson, J.D., State Director, Post Office Box 1520, Columbia, South Carolina 29202-1520

June 25, 1999

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street Suite 1200
Columbia, South Carolina 29201-2831

Dear Mr. Wagner:

I have reviewed the preliminary draft report on the application of Agreed Upon Procedures of the accounting records at the South Carolina Department of Social Services for the fiscal year ended June 30, 1998. I am authorizing release of the report.

Enclosed with this letter are our responses to the Auditor's comments.

Should you have any questions regarding these responses, please call Billy W. Gossett at 898-7490.

Sincerely,

Wendell Price, Deputy State Director
Administration and Program Support

Enclosures

WP:gr

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES



Elizabeth G. Patterson, J.D., State Director, Post Office Box 1520, Columbia, South Carolina 29202-1520

RESPONSES TO THE APPLICATION OF AGREED UPON PROCEDURES FOR FISCAL YEAR 1998.

ACCOUNTS PAYABLE CLOSING PACKAGE INCORRECT

Response: Finding is correct. Payment of telephone bill to Bell South was for service for the month July 1998 being processed in July of Fiscal Year 1999. An incorrect analysis of the bill caused the record to be designated as a prior month billing.

As noted in the report specific instructions are provided in writing regarding the proper procedures. Extra awareness of this matter has been discussed with staff in order to prevent future occurrence.

RECONCILIATION DIFFERENCES

Response: GAFRS was installed as the Agency's accounting system on July 1, 1997. The agency went from an automated reconciliation system to a manual process on GAFRS. This, in addition to the process of learning a new system and numerous errors created with the new system, caused delays in the timely preparation of reconciliations to the Comptroller General. The final reconciliation was not prepared until May 1999 due to FM13 documents being processed. Reconciliations will be completed as timely as possible with reconciling items properly supported, corrected and with proper approvals. FY 1999 reconciliation to the Comptroller General is current.

All but one of the items noted by the auditors were related to the County Expense Program. An attempt was made to correct these items in May 1999 but, the auditors were not satisfied with the explanations and documentation provided. The other item pertained to Cost Allocation and was not prepared until October 1998 after being identified on the reconciliation for FM 13 dated November 12, 1998. These items are in the process of being further analyzed and corrected with proper explanations and documentation.

PAYROLL DEFICIENCIES

Response: A. Payroll staff have been reminded to submit this information with the terminating personnel action form and the file room notified, as a quality review to make sure this information is sent for terminated files. (See Attachment D) This important step will become a part of the payroll staff training when there is turnover.

Response: B. (1) and (2)
The Human Resource Division will ensure that all employees, upon processing new hire documents, will complete the required W-4 and I-9 forms. These forms will be placed in the appropriate files.

A concerted effort was taken last year by Human Resources to review the files of all current employees hired after the implementation date of the immigration federal law for missing or incomplete I-9 forms. Divisions/areas were contacted to obtain this information and most were returned.

A new employee orientation checklist was developed and recently revised to assist the numerous personnel liaisons that process new hire paperwork. The purpose of this document is to ensure they review important forms and policies with new DSS employees and to comply with state laws regarding wage notification. Additionally, training was held May 13, 1999 to review the orientation checklist with the liaisons and the importance of completing documents and reviewing policies with new hires. (See Attachment A Orientation Checklist and Attachment B Training Information.)

Another internal checklist was developed last year for Human Resources staff to use to ensure proper documents are received for the official files. (See Attachment C - note that DSS-1814 I-9 Form and W-4 Form are included). These remedial steps, that have already been implemented, should prevent such future occurrences regarding these forms, along with reminding staff to pay closer attention when filing documents in the approximately 6,000+ personnel files and 5,000+ benefits files maintained by the Division.

Response: C. The Human Resource Management Division recognized last year that the payroll errors had increased. The unit has been reorganized. A verification and review process of actions was reinstated. The Finance Division exception reports are being worked more diligently than before to reduce errors and overpayments. Finally, monthly payroll meetings with Finance, Human Resources, Information Systems, and GAFRS Team are being held to discuss specific and systemic payroll problems. These preventive measures have improved the quality of payroll and will be continued. Finally, the agency produces a mismatch report every payroll that is being reviewed and analyzed to ensure that employees are paid correctly.

Response: D. The agency will make a concerted effort to ensure that properly signed authorizations are placed in the employee's benefits files. However, if an employee, for example, selects insurance coverage at the time of hire and remains with the agency 10 years and never changes coverage, it would be an administrative burden to have the hundreds of employees sign a new deductions form each time the state insurance plans change rates but, the employees do not change coverage level. It is unclear whether this example is one of the causes for the cited condition of deductions were difficult to locate and assistance from payroll personnel was necessary to determine most of the voluntary deductions.

JOURNAL ENTRY DEFICIENCIES

Response: DSS Finance has drafted and will implement new procedures to ensure journal entries have proper approval, explanations and supporting documentation that will be on file with the journal entry.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Response: The Agency concurs with the finding. Corrections to the Schedule of Federal Financial Assistance (SFFA) have been made. Management will work with staff to develop formal procedures in reviewing the SFFA.

The Department concurs with this recommendation and is taking steps to timely process adjustments to federal grants on the Department's records as the result of federal financial reporting. This is not a problem with what the Department reported to federal grantors nor did this situation affect federal cash management of the programs.

LEASE DEFICIENCIES

Response: Finding is correct. Comptroller General had to correct some of the future payment data in order to capture proper summary data on the Closing Package. This office was made aware of their questions during their audit review of our submission. With our concurrence the corrections were made. This report is completed via a Lotus Spreadsheet format that creates the Lease Register. Inadvertently, the formula for addressing the last year of the future payments failed, in some cases, to reflect a partial period of less than 12 months. In other cases, the calculations were dependent on capturing the correct beginning and ending dates. The report has been reviewed and action taken to prevent future occurrence.