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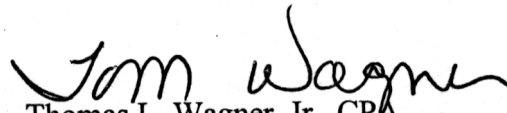
June 8, 2000

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, 1999, 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/cwc

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

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 1999

**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 both 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, 1999, 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 tested the reasonableness of collected and recorded amounts. 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 those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded. 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 payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and, comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Comment 5 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 Comment 6 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, 1999, 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 Comment 3 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 1999. 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 Accountant's Comments section of the report on applying agreed-upon procedures to the financial records and internal controls of the Department resulting from our engagement for the fiscal year ended June 30, 1998 dated June 14, 1999 to determine if adequate corrective action has been taken. The deficiencies noted were corrected except as noted in Section B 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, 1999, 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 Comments 1, 2 and 4 in Section A 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, 1999, 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 Comment 7 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 Governor and the users specified in paragraph one and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
May 19, 2000

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1999**

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 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.

1. ACCOUNTS PAYABLE CLOSING PACKAGE INCORRECT

Our review of the accounts payable closing package disclosed that four invoices totaling \$65,961 were for goods and/or services provided in July, 1999 and were included in accounts payable as of June 30, 1999. Also, the accounts payable listing included the amount of \$12,610 in error. This amount was not an account payable and should not have been included in the listing. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Section 3.12 of the GAAP Closing Procedures 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 accounts payable schedule and the reviews of the related documentation that supports accounts payable as of each year-end.

2. INTERDEPARTMENTAL TRANSFER OMITTED

An interdepartmental transfer for \$41,781 between the State Accident Fund and the Department for insurance costs that benefited the Department prior to June 30, 1999 was not included in the year end-closing package.

Section 3.18 of the GAAP Closing Procedures Manual prepared by the Comptroller General requires the reporting of interdepartmental transfers that are between state agencies and were for goods or services received on or before June, 30.

We recommend that additional care be exercised in preparing the interdepartmental transfer schedule and the reviews of the related documentation that supports interdepartmental transfers as of each year-end.

3. RECONCILIATION DEFICIENCIES

References were included in the Department's thirteen month reconciliation's for cash and expenditures to journal entry #JE00775 for three large dollar amounts. The documentation provided to support journal entry #JE00775 did not include any references or linkage of the three amounts. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Good accounting and internal control procedures require the Department to accumulate and maintain accurate and complete documentation to support all journal entries and all reconciling amounts included in each month end reconciliation.

We recommend that the Department prepare and maintain accurate and complete documentation that supports all reconciling amounts included in its month end reconciliations and the related adjusting journal entries.

4. ACCRUED COMPENSATED ABSENCES CLOSING PACKAGE DEFICIENCIES

Our test of the closing package for accrued compensated absences disclosed the following deficiencies:

- A. The report supporting the annual and compensatory leave balances as of June 30, 1999 was run before all leave slips for leave taken through June 30, 1999 were entered into the system. Consequently, leave taken during June 1999 for 8 of the 25 leave balances tested was omitted. The report was run on July 6, 1999 and should have been run at a later date after having the assurance that all leave slips for leave taken through June 30, 1999 were available and included in the year-end report.
- B. Leave slips could not be located to support leave taken by 3 employees of the 25 tested. Also, the leave slips for 4 employees of the 25 tested did not mathematically add up to the leave total included in the computer printout. It was not determined whether the differences were from leave slips missing or if errors were made in entering the time taken per the leave slip to the computer maintained records.
- C. Of the 25 leave balances tested, leave taken by one employee on May 26, 1999 was not entered into the computer system prior to year-end resulting in the accrued leave balance for this employee being overstated as of year-end. The omission was corrected after June 30, 1999.
- D. There was an adding error on the compensated absences summary form page of the closing page. Amounts supported by the year-end schedules for annual leave and overtime compensatory time were entered correctly but the two amounts were added together incorrectly in reporting the year-end total. The total figure was overstated by \$17,845.

Section 3.17 of the GAAP Closing Procedures Manual prepared by the Comptroller General requires the closing package to report the actual accumulated unused leave balances at June 30. Also, good accounting and internal control procedures require the Department to accumulate and maintain accurate records that support the year-end accrued compensated absences balance.

We recommend the Department implement data input and fiscal year-end cut-off procedures to ensure that all leave taken through June 30 is properly entered into the leave system before the compensated absences detail report is produced to obtain closing package information. We further recommend that additional care be exercised in both the preparation and the independent review of the closing package which would include determining the clerical accuracy of the forms.

5. PAYROLL DEFICIENCIES

Our tests of 25 payroll expenditures disclosed the following deficiencies:

A. Employee files did not include the following documentation as required:

- (1) Two files did not contain Federal form W-4 which is required by Federal law.
 - (2) One file did not contain a signed authorization to support withholdings for voluntary insurance.
- B. The pay rate used to calculate gross pay for one employee was incorrect. This resulted in the employee being underpaid 19 cents per hour for an extended period of time. The employee should be paid for the shortage.

Similar findings were cited in the prior year's report on applying agreed-upon procedures.

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

We recommend that procedures be established to ensure payrolls are disbursed for the correct amounts and all required withholding/deduction documentation is obtained and retained in the employee files. There should be an independent comparison of payroll information (e.g., pay rate, work hours) to the supporting documentation for new hires and changes.

6. JOURNAL ENTRY DEFICIENCIES

Our tests of journal entries disclosed that of the 25 tested, 19 were not approved, 6 did not have adequate supporting documentation and 12 did not include the written purpose and explanation for the entry. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

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

We recommend that procedures be implemented to ensure that each journal entry includes an explanation of its purpose; has adequate supporting documentation; and has evidence of supervisory review and approval by a responsible employee other than the preparer.

7. FEDERAL FINANCIAL ASSISTANCE SCHEDULE RECONCILIATION

The reconciliation of the schedule of federal financial assistance to the agency's general ledger was not timely prepared for the year ended June 30, 1999. The reconciliation was completed in May 2000 during the course of our field work for this agreed upon procedures engagement.

Instructions issued by the South Carolina State Auditor's Office (SAO) required an accurate and complete schedule to be timely prepared and submitted by the Department to the SAO by August 27, 1999. Also, the reconciliation to the Agency's general ledger should be completed prior to the submission of the schedule.

We recommend that the Department's personnel prepare the reconciliation prior to completing its Schedule of Federal Financial Assistance that is reconciled to the Agency's general ledger.

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 applying agreed-upon procedures to the financial records and internal controls of the Department for the fiscal year ended June 30, 1998, dated June 14, 1999. The deficiencies were corrected except for the following as noted in Section A in the Accountant's Comments:

- Accounts Payable Closing Package Incorrect
- Reconciliation Deficiencies
- Payroll Deficiencies
- Journal Entry Deficiencies

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 1, 2000

**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, 1999. 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,

A handwritten signature in black ink, reading "Wendell Price". The signature is fluid and cursive, with the first name "Wendell" and the last name "Price" clearly distinguishable.

**Wendell Price, Deputy State Director
Administration and Program Support**

Enclosures

WP:gc



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 1999

ACCOUNTS PAYABLE CLOSING PACKAGE INCORRECT

Response:

While the general depiction of the finding and recommendation is correct as presented in the ACCOUNTANTS COMMENTS section, the CAUSE and RECOMMENDATION as presented in the POTENTIAL MANAGEMENT LETTER POINTS does not correctly represent the purpose of GAFRS Report (DAFR944P). Therefore, the CAUSE description is not accurate, and the RECOMMENDATION is not suitable. The GAFRS report is a summary listing of only the segregated expenditure items identified as accounts payable at June 30, and reported on the Accounts Payable Closing Package. This data is generated as a result of the DSS Finance Division processor keying in the applicable Fiscal Year Task Code (depiction of Fiscal Year) during data entry. It would not be practicable to review the entire list of disbursement vouchers to determine the DAFR944P report's validity. Errors did occur due to improper inclusion of a portion of one journal entry, identification of the correct Fiscal Year, and by simple keying errors. Emphasis will be placed on the proper inclusion of journal data entry transactions, closer review of the delivery of goods and/or services date, as well as additional emphasis on the careful attention to data entry keying errors. A limited review of the GAFRS report will also be implemented.

INTERDEPARTMENTAL TRANSFER OMITTED

Response:

Agree with finding and recommendation. Additional emphasis will be placed on closer review of the delivery of goods and/or services date.

RECONCILIATION DIFFERENCES

Response:

We disagree with this finding. Document #JE00775 was entered in the amounts of \$50,931.78 (subfund 5002), \$87,887.26 (subfund 3442), and \$109,986.71 (subfund 6006 – noncash). First, these are not large dollar

amounts. Secondly, the only item missing on the fund printout was the dollar amount of the entry. Upon review of the FY 1998-99 "Other Statewide Costs" section folder, staff found the GAFRS input sheets with the amounts. This documentation was also available on the GAFRS history file. If there had been a problem with the input not agreeing with the JE submitted to the Comptroller General, this JE would have shown up as a reconciliation item for FY 1999. To improve the documentation process, staff will work to insure that all documents have "full" documentation attached.

ACCRUED COMPENSATED ABSENCE CLOSING PACKAGE DEFICIENCIES

- Response: A Historically, the leave balance report was generated in early July to meet the deadlines of preparing the compensated absences closing package by July 30th. Due to this finding, a request will be made to generate the report by mid-July to hopefully capture leave accurately. Notices will be sent to appointing authorities for their assistance in making sure that leave requests for the month of June are processed timely because of the importance of having accurate figures for the closing package.
- Response: B An effort will be made to ensure that appointing authorities understand the importance of processing leave requests accurately, verifying the information entered into the leave system, and maintaining accurate records.
- Response: C Employees are given leave statements twice each year, at the end of June and the end of December. If there are errors, employees report them to the leave clerk for correction, which is what occurred with this situation. Because of the volume of leave requests processed with 5,000+ employees, there is a chance that errors will occur. However, an effort will be made to stress to the appointing authorities the importance of processing leave actions accurately.
- Response: D Precaution will be taken to ensure that these figures are added and typed correctly.

PAYROLL DEFICIENCIES

- Response: A Efforts will be made to ensure that appropriate documents are maintained in the benefit files. One employee has completed the form W-4 to bring the file in compliance. The other employees referenced have left the agency.
- Response: B Efforts will be made to ensure that personnel action forms are processed accurately and verified for proper payment. This employee's pay matter will be reviewed to determine if reimbursement is required.

JOURNAL ENTRY DEFICIENCIES

Response: DSS Finance had implemented new procedures for the preparation of journal entries as a result of the FY98 AUP Audit. Compliance with the procedures was less than satisfactory; therefore, the procedures will be reemphasized with closer monitoring of journal entries submitted.

FEDERAL FINANCIAL ASSISTANCE RECONCILIATION

Response: The Agency concurs with the finding and is working in FY1999-2000 to insure that the reconciliation of the Schedule of Federal Financial Assistance to the Agency General Ledger is completed on a timely basis.