

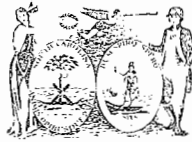
**SOUTH CAROLINA  
DEPARTMENT OF SOCIAL SERVICES**

**COLUMBIA, SOUTH CAROLINA**

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

**JUNE 30, 2004**

State of South Carolina



Office of the State Auditor

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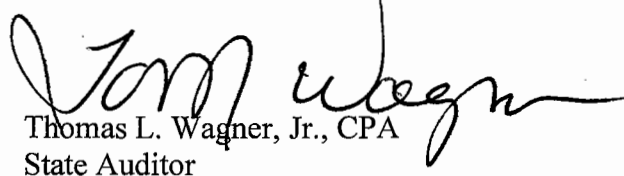
June 2, 2005

The Honorable Mark Sanford, Governor  
and  
Ms. Kim S. Aydlette, 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, 2004, 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  
COLUMBIA, SOUTH CAROLINA**

**TABLE OF CONTENTS  
JUNE 30, 2004**

	Page
<b>INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES</b>	1 - 4
<b>ACCOUNTANT'S COMMENTS</b>	5 and 6
<b>STATUS OF PRIOR FINDINGS</b>	7
<b>MANAGEMENT'S RESPOSNE</b>	Attachment A

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

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and 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, 2004, in the areas addressed. The Department is responsible for its financial records, internal controls and compliance with State laws and regulations. The agreed-upon procedures engagement was conducted in accordance with attestations standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

**1. Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Department's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues from sources other than State General Fund appropriations with those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

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

## **2. Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records; were bona fide disbursements of the Department; were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

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

## **3. Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine that the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate to detect errors and/or irregularities.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared 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 by expenditure account.

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

## **4. Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

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

**5. General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal accounting controls over the selected transactions were adequate to detect errors and/or irregularities.

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

**6. Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Departments 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 that reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

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

**7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2004.

Our finding as a result of these procedures is presented in the Accountant's Comments section of this report.

**8. Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2003, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in the Accountant's Comments section of this report.

**9. Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004 prepared by the Department and submitted to the State Auditor. We inspected it to determine that 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 the Accountant's Comments section of this report.

**10. Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section resulting from our engagement for the fiscal year ended June 30, 2003, to determine if adequate corrective action has been taken.

Certain findings had not been corrected as detailed in the Status of Prior Audit Findings section of this report.

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 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 for the information and use of the Governor, South Carolina Office of the State Auditor and the South Carolina Department of Social Services and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers + Lalan, PA*

May 31, 2005

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

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2004**

**COMPLIANCE**

Proviso 72.43 of the 2003-2004 Appropriations Act requires each state agency shall 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 to be drafted for submission to the appropriate standing committee of the General Assembly.

The Department could not provide any documentation that the required jurisdictional audit was performed.

The same finding was cited in the 2003 report on applying agreed-upon procedures.

We recommend that 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.

**CLOSING PACKAGES**

**Operating Leases Liability:**

During our testing of operating leases, we noted five of the ten leases contained errors. These leases had either terms or payment amounts that did not agree with the lease register used to complete the closing package. Because of the discrepancies, we could not determine whether the amounts shown for future minimum lease payments were correct.

Similar findings were cited in the 2003 report on applying agreed-upon procedures.

Section 3.19 of the GAAP Closing Procedures Manual states that the agency must retain a fully completed lease register for each of its leases and that the agency complete the lease register form at the inception of each lease before making the first payment to help ensure that the lease is properly classified as capital or operating. Furthermore, Section 3.19 directs the reviewer of the closing package to agree information on the lease closing package forms to properly completed lease registers. Section 1.8 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.

We recommend that at the beginning of each lease that the agency correctly fill out a lease register and that a responsible supervisor review it to ensure all required information is entered correctly and that the lease is properly classified as an operating or capital lease. All lease registers should be retained and used in preparation and review of the operating lease closing package. Furthermore, the employee performing the independent review of the lease closing package should agree information on the closing package to properly completed lease registers, other supporting documentation and the accounting records.



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

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2004**

**Interfund Payables:**

Our review of the interfund payables closing package disclosed that interfund payables, per the closing package was overstated by \$19,570 due to the improper inclusion of one voucher in the amount of \$19,570 which was for goods or services received after June 30, 2004.

Section 3.18 of the GAAP Closing Procedures Manual defines an interfund payable at June 30<sup>th</sup> as amounts owed for goods or services that are received on or before June 30 and paid for after June 30<sup>th</sup>. In addition, Section 1.8 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.

We recommend additional care be exercised in preparing the interfund payables schedule and in performing the supervisory reviews of the listing and the related documentation that supports interfund payables closing package as of each year-end.

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

During our review of the Schedule of Federal Financial Assistance (SFFA), we noted that the Department is not properly reconciling their accounting records to the SFFA. The Department does not use their general ledger system to prepare the SFFA; instead they use the accumulated federal financial reports and other sources to prepare their SFFA.

The same finding was cited in the 2003 report on applying agreed-upon procedures.

We recommend the Department strengthen its policies and procedures over the preparation of the "Reconciliation of Federal Funds" by incorporating reconciliation between the SFFA and their general ledger system.

**JOURNAL ENTRIES**

Our review of 15 journal entries disclosed 2 for which the Department could not locate a hard copy of the journal entry to show the purpose of the entry or the employee that prepared and approved the journal entry.

Good accounting controls require the documentation be maintained to support all entries made.

We recommend that the Department implement procedures to ensure that documentation is maintained to support all entries posted to the records of the Department.

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

**STATUS OF PRIOR FINDINGS  
JUNE 30, 2004**

During the current engagement, we reviewed the status of corrective action plan taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report for the fiscal year ended June 30, 2003, dated August 3, 2004. We determined that the Department has taken adequate corrective action on each of the findings except for the following:

- Compliance
- Operating Lease Closing Package
- Schedule of Federal Financial Assistance

# **MANAGEMENT'S RESPONSE**

## **ATTACHMENT A**

## **COMPLIANCE**

The Department does informal reviews of all provisos at the beginning of each legislative session by its Governmental Affairs Office. Although no documentation has been done in the past to support these reviews, the Department will initiate action to document all future review sessions.

## **CLOSING PACKAGES – OPERATING LEASES LIABILITY**

The Department agrees with the findings that clerical errors were made in the calculations. Additional time, training and effort will be devoted in preparing and reviewing the schedules. Also, procedures will be established to ensure proper start and end dates are established for all operating leases.

## **CLOSING PACKAGES – INTERFUND PAYABLES**

The Department agrees with the finding that a voucher was inappropriately included in the accrual for services rendered after June 30, 2004. Close attention and accuracy will be stressed in preparing future schedules.

## **SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

In accordance with the State Auditor's recommendations, the Department will prepare the SFY2005 SFFS using financial data retrieved from the accounting system rather than federal financial reports. Federal financial reports will be reconciled back to the SFFA. For SFY2004, the SFFA, prepared from the federal financial reports, was reconciled back to the general ledger.

## **JOURNAL ENTRIES**

Once again, we concur with the finding that two documents were missing from the files. Additional maintenance of the files will be stressed, as well as logging out of documents removed from the files.