

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

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

JUNE 30, 2006

State of South Carolina



Office of the State Auditor

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June 28, 2007

The Honorable Mark Sanford, Governor
and
Kathleen Hayes, Ph.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, 2006, 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Richard H. Gilbert, Jr., CPA,
Deputy 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, 2006, 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 in accordance with the agency's policies and procedures and State regulation.
- 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$15,499 – general fund, \$239,195 – earmarked fund, \$11,983 – restricted fund, and \$1,352,780 – federal fund) and \pm 10 percent.

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.

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 in accordance with the agency's policies and procedures and State regulations; 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. Going

- 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 at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$274,048 – general fund, \$227,562 – earmarked fund, \$11,625 – restricted fund, and \$1,356,577 – federal fund) and ± 10 percent.

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

3. Payroll Disbursements and Expenditures

- We inspected 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 processed in accordance with the agency's policies and procedures and State regulations.
- 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 the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$274,048 – general fund, \$227,562 – earmarked fund, \$11,625 – restricted fund, and \$1,356,577 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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.

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, the purpose of the transactions were documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

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

5. 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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, 2006, 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 Department's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the 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. Appropriation Act

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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, 2006 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 deficiency described in the finding reported in the Accountant's Comments section of our report dated May 31, 2006 resulting from our engagement for the fiscal year ended June 30, 2006, to determine if adequate corrective action has been taken.

Various findings had not been corrected as cited in the Accountant's Comments 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 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

June 25, 2007

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 2006**

SECTION 1 – VIOLATION OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the Office of the State Auditor and the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The condition described below has been identified as a violation of State Laws, Rules or Regulations.

CASH RECEIPTS AND REVENUES

Our testing of twenty five receipts disclosed that five receipts were not deposited in a timely manner.

Proviso 72.1 of the 2005-06 Appropriations Act requires the Department to deposit all receipts at least once each week.

We recommend that the Department implement procedures to ensure that all receipts are deposited timely.

SECTION B - OTHER WEAKNESSES

The conditions described in this section were identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

CLOSING PACKAGES

All Closing Packages:

The Department did not complete a reviewer's checklist for any of the closing packages that it submitted.

Each section of the GAAP Closing Procedures Manual requires the Department to complete a reviewer's checklist for each closing package that it prepares.

We recommend that the Department ensure that a reviewer's checklist is completed for each closing package submitted.

Accounts Payable:

Our testing of the accounts payable closing package disclosed the following errors:

1. The Department did not include payments for the foster care program in accounts payable. Three vouchers totaling approximately \$40,000 for this program should have been reported in the accounts payable closing package.
2. Numerous vouchers under \$5,000 each were included in the accounts payable closing package.
3. The closing package was submitted after the deadline established by the Comptroller General.
4. One voucher in the accounts payable schedule was understated by approximately \$2,500.

5. The Department could not locate support for approximately \$20,000 of accounts payable included in the closing package.
6. The accounts payable closing package included numerous funds for which no accounts payable were reported.

Finding number 6 was also cited in last year's report on applying agreed-upon procedures.

Section 3.12 of the GAAP Closing Procedures Manual states that the agency should complete an Accounts Payable Summary Form – Zero Balances for any fund that has no account payable vouchers in excess of \$1,000. This section also requires the Department to retain workpapers that support each amount on the completed forms. This section of the GAAP Closing Procedures Manual also contains the definitions of accounts payable that should be included in the closing package and requires the Department to exclude individual vouchers under \$5,000. Section 1.5 of the GAAP Closing Procedures Manual contains the due dates of the various closing packages.

We recommend that the Department implement procedures to ensure that the accounts payable closing package is accurately prepared and timely submitted in accordance with the instructions contained in the GAAP Closing Procedures Manual and that workpapers are retained supporting all reported amounts.

Operating Leases:

During our testing of operating leases, we noted an error in the amount of future minimum lease payments for 1 of the 10 leases tested. One lease register reported payments due in fiscal year 2009 of \$142 instead of the actual amount of \$326.

A similar finding was cited in the report on applying agreed-upon procedures for the year ended June 30, 2005.

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. Section 1.7 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 the Department implement additional procedures to ensure that all amounts are correctly reported in the closing package.

Grant/Contribution Receivables and Deferred Revenue:

Our testing disclosed that federal grants receivable were understated by approximately \$4,188,000 because the Department did not include the receivable for the consolidated federal expenditure account. This account is used to account for federal expenditures until they are allocated to specific grants. The majority of the balance represents fiscal month 13 expenditures. In addition, we noted that the closing package was submitted after the deadline established by the Comptroller General.

We also noted that the Department did not record a receivable for the certified matching funds attributable to the County's share of expenditures to offset an account payable recorded in the accounts payable closing package causing contribution revenues to be understated.

Section 3.3 of the GAAP Closing Procedures Manual requires the Department to record a receivable if the revenue recognition criteria has been met and the cash has not been received from the grantor. Section 1.5 of the GAAP Closing Procedures Manual contains the due dates of the various closing packages.

We recommend that the Department record receivables for all grants or contributions that have met the revenue recognition criteria for which they have not received the cash as of fiscal year-end and, also, that they implement procedures to ensure that all closing packages are submitted timely.

Compensated Absences:

The Department reported all employees listed on the annual leave liability report as full-time equivalents on the closing package. Many employees listed on this report are not full-time.

Section 3.17 of the GAAP Closing Procedures Manual requires an agency to report the number of employees earning annual leave in full-time equivalents accurate to two decimal places.

We recommend that the Department ensure that all amounts are reported correctly in the closing package according to the requirements.

Interfund Payables:

Our review of the interfund payables closing package disclosed that interfund payables were overstated by approximately \$17,000 due to the improper inclusion of the July portion of a voucher. We also noted that the closing package was submitted after the deadline established by the Comptroller General.

A similar comment regarding overstated interfund payables was also cited in the Accountant's Comments section of the report for the year ended June 30, 2005.

Section 3.18 of the GAAP Closing Procedures Manual defines an interfund payable at June 30th as amounts owed for goods or services that are received on or before June 30 and paid for after June 30th. In addition, Section 1.7 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. Section 1.5 of the GAAP Closing Procedures Manual contains the due dates of the various closing packages.

We recommend additional care be exercised in preparing the interfund payables schedule and in performing the supervisory review of the listing and the related documentation that supports the interfund payables closing package as of each year-end. Also, the Department should ensure that all closing packages are submitted in a timely manner.

CASH RECEIPTS AND REVENUES

The Department could not locate the receipts log for one of the twenty receipts tested. In addition, the Department could not locate a deposit slip to show the actual deposit of one of the receipts.

Good internal controls require a system in place to ensure that all required documentation is retained.

We recommend that the Department ensure that all required documents are retained and available for audit.

PAYROLL EXPENDITURES

Our test of payroll disbursements disclosed that the funding split listed on the payroll voucher did not agree to the employee profile for 14 of the 25 employees tested. The employee profile contains the breakdown of the employee's funding between general, earmarked, restricted and federal funds. The same finding was cited in last year's report on applying agreed-upon procedures.

State policies require the Department to have employee profiles that support the funding sources actually being charged.

We recommend that procedures be put in place to ensure that all employee profiles are updated to agree with the actual funding sources being charged.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

As noted above under the grants/contributions receivable finding, the Department did not include approximately \$4,188,000 of federal expenditures on the schedule of federal financial assistance

Office of the State Auditor instructions requires the Department to include all federal grants on the schedule. The amounts are to be reconciled to the Comptroller General's 467 report.

We recommend that the Department allocate all federal expenditures included in the consolidated federal account to specific federal grants in the future and include them on the schedule of federal financial assistance.

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

**STATUS OF PRIOR FINDINGS
JUNE 30, 2006**

During the current engagement, we reviewed the status of the corrective action plan taken on each of the findings reported in the Accountant's Comments section of the report on applying agreed-upon procedures for the fiscal year ended June 30, 2005, dated May 31, 2006. We determined that the Department has taken adequate corrective action on the following findings

- Compensated absences closing package
- Cash and investments closing package
- Non-payroll disbursements.

The Department continues to have comments in the following areas:

- Accounts payable closing package
- Operating leases closing package
- Interfund payables closing package
- Payroll expenditures.

MANAGEMENT'S RESPONSE

ATTACHMENT A

CASH RECEIPTS AND REVENUES

The Department agrees that there were some receipts that were not deposited within the timeframe outlined in the Appropriations Act. However, when checks are logged in and do not have a remittance advice attached to them, or do not identify the applicable program(s), then research is required to apply the credits properly. We will attempt to identify the receipts in a more timely manner.

CLOSING PACKAGES – ALL

The Department agrees that the reviewer's checklist was not completed for any of the closing packages submitted. We will ensure that the checklist is completed for all subsequent submissions.

CLOSING PACKAGES – ACCOUNTS PAYABLE

1. The Department agrees that three foster care program vouchers totaling approximately \$40,000 were not included in accounts payable as required. This was due to an error in the technical program that staff was not aware. Measures will be taken to verify the correct effective dates are reflected in all subsystem interfaces.
2. We agree that numerous vouchers under \$5,000 were included in accounts payable, but since we have to report by fund, no efforts were made to add up and eliminate those vouchers because of time and human resource requirements. If we can get technical changes to the report that is used as a basis for accounts payable, then subsequent years will be corrected.
3. The Department agrees that the package was submitted after the deadline, but because that deadline was moved up, it is physically impossible for us to comply with the established deadline.
4. We agree that one invoice was understated by approximately \$2,500, and steps will be taken to strengthen the compilation and review.
5. The Department agrees with the documentation support finding and will ensure all future calculations are fully supported.
6. We agree that the closing package included numerous funds that were reported as -0-. We will complete the summary sheet that has zero balances in all future submissions.

CLOSING PACKAGES – OPERATING LEASES

The Department concurs that the liability of the operating lease tested in the sample was understated by \$184. However, with the number of leases throughout the agency, and with the spreadsheet supplied for calculations, it is next to impossible to assure that all are correct. We will verify all calculations to the extent possible.

CLOSING PACKAGES – GRANT/CONTRIBUTION RECEIVABLES AND DEFERRED REVENUE

Once again, the Department agrees with the finding that a receivable was not recorded for certified matching expenditures. We will strengthen the review process to ensure that receivables for all grants are recorded. We agree also that the submission deadline was missed. Additionally, procedures will be implemented to ensure a timely submission.

CLOSING PACKAGES – COMPENSATED ABSENCES

The agency contracted with the Budget and Control Board, CIO, to provide an automated leave system, to include a report for the compensated absences. An assumption in purchasing this service was that the compensated absence report would be in full compliance with the requirements since the leave system is utilized by the Budget and Control Board, along with other state agencies. However, it was determined that the report does not adequately capture the full-time equivalents correctly. The agency has contacted the Budget and Control Board, requesting that the report be modified for full compliance to the requirements.

CLOSING PACKAGES – INTERFUND PAYABLES

The Department agrees that an invoice was overstated by \$17,000 due to the month of July being included. Extra care and review will be taken in preparing the schedule. Additionally, because the deadline has been moved up, subsequent years may reflect our missing the deadline because of the physical constraints imposed.

CASH RECEIPTS AND REVENUES

We agree that documentation for a cash receipt had been misplaced. Additional care and review will be taken to prevent any re-occurrences.

PAYROLL EXPENDITURES

The Department agrees with the finding that all employee profiles did not agree with the actual funding sources charged. The agency will strive to ensure payroll expenditures and employee profiles are more accurate by periodically balancing these systems.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The Department will appropriately allocate all federal expenditures included in the consolidated federal account and include them on the schedule of federal financial assistance.