

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

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

JUNE 30, 2007

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 6, 2008

The Honorable Mark Sanford, Governor
and
Kathleen M. 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, 2007, 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." with a stylized flourish at the end.

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

RHGjr/trb

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

**TABLE OF CONTENTS
JUNE 30, 2007**

	Page
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1 - 4
ACCOUNTANT'S COMMENTS	5 - 8
STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	Attachment A

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, 2007, 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 (\$13,770 – general fund, \$446,220 – earmarked fund, \$10,256 – restricted fund, and \$3,584,574 – federal fund) and ± 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.

- 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 (\$626,257 – general fund, \$445,805 – earmarked fund, \$10,465 – restricted fund, and \$3,554,431 – federal fund) and ± 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.

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 (\$626,257 – general fund, \$445,805 – earmarked fund, \$10,465 – restricted fund, and \$3,554,431 – 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. 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, 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. Our finding as a result of these 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 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, 2007, 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, 2007, 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, 2007 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 June 25, 2007 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 3, 2008

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 2007**

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 one receipt was not deposited in a timely manner. The funds were received on July 27, 2006 and were not deposited until August 7, 2006.

Proviso 72.1 of the 2006-07 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

Closing Package Control Checklist:

The Department indicated on question 18 on the closing package control checklist that it would need to complete an interfund payables closing package. It was later determined that the Department did not have IDT's exceeding \$100,000 and therefore would not need to complete the interfund payable closing package but the Department did not file an amended closing package control checklist with the Comptroller General's office.

We recommend that the Department file amended closing packages any time they determine that they have made an error in one that had been submitted.

Accounts Payable:

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

1. Numerous vouchers under \$5,000 each were included in the accounts payable closing package.
2. The closing package was submitted after the deadline established by the Comptroller General.
3. Page 2 of the reviewer's checklist was not completed for the accounts payable closing package.
4. Various payments to State agencies were included on the closing package for the ABC program and should not have been reported based on closing package instructions.

5. Child care service vouchers with July 1, 2007 service dates were included in the closing package and should not have been.

Finding numbers 1 and 2 were also cited in last year's report on applying agreed-upon procedures.

Section 3.12 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.

Operating Leases:

During our testing of operating leases, we noted the following:

1. One lease register did not reflect the rent increase that was effective on February 1, 2007 causing future minimum lease payments to be understated by \$14,400 per year.
2. The rental rate for July and August 2007 as approved by the State Budget and Control Board for one of the leases was \$11,833 per month and the Department actually paid \$17,117 per month. The GAFRS cover sheet did not contain an approval signature required then the voucher amount is in excess of \$5,000.
3. The amounts reported on the operating lease registers were not updated to reflect increases in the sales tax rates causing future minimum lease payments to be understated.
4. The Department completed the reviewer checklist for the operating lease – lessor reviewer checklist instead of the operating lease reviewer checklist and the reviewer checklist that they did complete was completed 12 days after the closing package was submitted to the Comptroller General.

Section 3.19 of the GAAP Closing Procedures Manual requires the Department to complete the reviewer checklist before the closing package is submitted to the Comptroller General. Section 3.19 also requires the Department to report accurate figures including sales tax for all future minimum lease payments.

We recommend that the Department implement additional procedures to ensure that all amounts are correctly reported in the closing package and that the correct closing packages are completed in a timely manner. The Department should determine whether they overpaid the lease payments stated in finding # 2 above and recover any overpayment from the lessor.

Cash and Investments

Our review of the cash and investments closing package disclosed that the Department did not report the reported (cost) amounts of investments on the closing package as required.

Section 3.19 of the GAAP Closing Procedures Manual requires the Department to report both the reported amount and the fair value for investments.

We recommend that the Department implement steps to ensure that all amounts are correctly reported on the closing package.

Grant/Contribution Receivables and Deferred Revenue:

Our testing disclosed that the majority of beginning balances reported on the grants analysis worksheet did not agree with the ending balance reported on the prior year's worksheet. The Department answered yes to the question on the reviewer's checklist which asked whether the beginning balance for each grant agrees with the prior year's ending balance for the same grant. We also noted that the same condition existed on the Department's schedule of federal financial assistance. There was also a difference between the receipts and expenditures reported on the grant analysis worksheet and the schedule of federal financial assistance.

Section 3.3 of the GAAP Closing Procedures Manual contains the requirements for the preparation of the grants/contributions and deferred revenue closing package. The Office of the State Auditor provides a letter of instruction on the proper completion of the schedule of federal financial assistance.

We recommend that the Department ensure that the beginning balances agree with the prior year's ending balances or provide a schedule of the differences and ensure that the closing package and the schedule of federal financial assistance are in agreement.

Inventory:

The inventory closing package disclosed that the Department indicated that the section for the date of the physical inventory and the inventory valuation were not applicable.

Section 3.6 of the GAAP Closing Procedures Manual requires the Department to enter the date that the agency took its physical count and enter the inventory valuation method used by the Department.

We recommend that the Department ensure that all forms are completed in accordance with the requirements.

Litigation:

The Department reported a case as being settled in the current year that would not require the State to make any future payments. Based on supporting documentation, the case was settled in February 2006 upon the payment of \$60,000. In the prior year, this case was reported as a C3 on the closing package which indicated a potential loss of \$500,000 or more.

We recommend that the Department ensure that the status of all litigation is properly reported.

Grant Disallowances:

The Department reported \$6,756,475 on the grant disallowances closing package that had been paid in May 2007 causing an overstatement of future liabilities.

Section 3.14 of the GAAP Closing Procedures Manual requires the Department to report liabilities for future payments that will be made.

We recommend that the Department ensure that the closing package for grant disallowances only include liabilities for future payments that will be made.

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 7 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.

Also, 5 employees of the 25 tested did not have W-4 or the equivalent State form in their file to support the amount of federal taxes being withheld.

State policies require the Department to have employee profiles that support the funding sources actually being charged. Federal law requires all employers to have W-4's for all employees.

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 and that W-4's are obtained on all employees.

VOUCHERS NOT COMPLETED CORRECTLY

Our testing of five of the twelve EV vouchers disclosed that none of them had been approved before posting and one of the five did not contain an explanation of the purpose. These vouchers are used to write-off small receivable balances.

Department policy requires that all of these vouchers be approved and contain an explanation.

We recommend that the Department ensure that all vouchers are completed in their entirety.

DISBURSEMENT DEFICIENCIES

Our test of disbursements revealed that providers participating in the ABC Child Care voucher program were not completing the vouchers in accordance with the Department's established procedures. Providers were not completing the section showing number of days absent in all cases and were not explaining the reason that the children were absent as required. In addition, we noted that the Department was not consistent in using their receiving stamp on the vouchers.

The Department's procedures manual requires the provider to write in the number of days that the child was absent during the week and to enter "0" if the child was not absent. It also requires the provider to enter an explanation of the absence in the comments section of the voucher. The Department is suppose to use the receiving stamp when the voucher is received.

We recommend that the Department enforce its procedures on the completion of the child care vouchers and ensure that the all vouchers are stamped with the receiving stamp.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Our review of the schedule of federal financial assistance disclosed that the beginning fund balance did not agree with the ending balance from the prior year's schedule in many cases. We also noted that the receipts and expenditures for two of the grants did not agree with the grants analysis worksheet in the grants/contributions receivable and deferred revenue closing package.

The State Auditor's Office provides instructions on the proper completion of the schedule of federal financial assistance.

We recommend that the Department ensure that all beginning amounts agree with the prior year's schedule and that the receipts and expenditures agree with the grants analysis worksheet and the Department's books.

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

**STATUS OF PRIOR FINDINGS
JUNE 30, 2007**

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, 2006, dated June 27, 2007. We determined that the Department has taken adequate corrective action on the following findings

- Compensated absences closing package
- Interfund payables closing package
- Cash receipts and revenues

The Department continues to have comments in the following areas:

- Receipts not deposited timely
- Accounts payable closing package
- Operating leases closing package
- Grant/contribution receivables and deferred revenue closing package
- Payroll expenditures.
- Schedule of federal financial assistance

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), and then research is required to apply the credits properly. We will attempt to identify the receipts in a timelier manner. Additionally, steps will be taken to ensure that deposits are made in compliance with the requirements.

CLOSING PACKAGES CONTROL CHECKLIST

The Department agrees that the control checklist for the interfund payables closing package indicated that we would have IDT's exceeding \$100,000, which did not occur. We will send in revised closing packages if initial estimates are incorrect.

CLOSING PACKAGES – ACCOUNTS PAYABLE

1. The Department agrees that numerous vouchers under \$5,000 were included in the closing package. Most of those have been identified as occurring from various subsystems, such as Child and Adult Care Feeding and Summer Feeding. More careful review and research will be done to prevent further occurrences, with additional supervision over the process.
2. The Department agrees that the package was submitted after the deadline, which is very tight. Steps will be taken to ensure that the package is submitted on time.
3. We agree that page 2 of the reviewer's checklist was not completed. This was human oversight, and we will take extra care to make sure all is completed.
4. The Department agrees that various payments made to State agencies for the ABC program was included and should not have been. The subsystem report does not differentiate those payments separate from all others. However, we will take additional steps to review and exclude payments to State agencies.

5. We agree that child care service vouchers with July 1 service dates were included in the accrual and should not have been. Modifications will be made to the technical program to ensure service dates past June 30 are excluded.

CLOSING PACKAGES – OPERATING LEASES

1. The Department concurs that the liability of the operating lease tested in the sample was understated by \$14,400., because the incorrect Lease Purchase Agreement (LPA) was used to calculate the liability. We will ensure that the updated LPA is used for calculations.
2. The Department agrees that we overpaid the rental rate for July and August 2007. Initially, we deducted the overpayment from subsequent payments, but were instructed by the Comptroller General's Office that we should pay the vendor what was initially paid. However, upon further research, it was discovered that the CG had a copy of the incorrect LPA. The Department will again recoup the overpayment and ensure that the LPA is current.
3. We agree that the operating lease registers were not updated to reflect increases in the sales tax rates. However, because we did not receive the updated tables from the Department of Revenue until October, 2007, the best we could have done was to estimate the increased rates.
4. The Department agrees that the incorrect checklist was completed and was completed 12 days after the closing package was submitted to the CG. We will ensure that the correct form is filled out and completed timely.

CLOSING PACKAGES – CASH AND INVESTMENTS

The Department agrees that the fair value of investments was not filled out as required. We will ensure that all future packages have the proper information filled out as required.

CLOSING PACKAGES -
GRANT/CONTRIBUTION RECEIVABLES
AND DEFERRED REVENUE

In accordance with the Auditor's recommendations, the Department will ensure that the grants analysis worksheet beginning balances agree with the prior year's ending balances and that the closing package and schedule of federal financial assistance are in agreement. The discrepancy is due to the estimated allocation of the SCONNS (cost allocation pool) balance to the federal grants as was required by an AUP finding from the previous year. This allocation was not applied to the SFFA because it did not reflect actual grant expenditures reported at the time. Procedures will be implemented to ensure that a schedule of differences is provided if necessary.

CLOSING PACKAGES – INVENTORY

The Department agrees that the inventory form did not include the physical inventory date and the inventory valuation method. We will ensure that the form is completed properly.

CLOSING PACKAGES – LITIGATION

Once again, the Department agrees that a case being settled was overstated whereby we had estimated a settlement amount of \$500,000, when it was settled for \$60,000. We were not aware that the case had been settled by the Insurance Reserve Fund until well after the settlement date. In the future, we will monitor and estimate potential liabilities more accurately.

CLOSING PACKAGES – GRANT
DISALLOWANCE

In accordance with the Auditor's recommendations, the Department will ensure that the closing package for grant disallowances will only include liabilities for future payments.

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. We also agree that W-4 forms were not in a number of employees' files. The Department will request periodic updates from employees for the required forms.

VOUCHERS NOT COMPLETED CORRECTLY

We agree that a number of vouchers did not have proper designation of approval before posting and did not contain sufficient explanation. We will review vouchers and make sure there is sufficient explanation and approval prior to postings.

DISBURSEMENT DEFICIENCIES

The Department agrees that not all ABC Child Care vouchers listed the number of absences on each voucher completed. However, in a number of instances, the providers list absences on subsequent vouchers, which is permissible under agency procedures. We also agree that the receiving stamp was not on some of the vouchers sampled. This was due to the stamp being serviced for two weeks and a loaner was not available by the vendor.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

In accordance with the Auditor's recommendation, the Department will ensure that all beginning amounts agree with the prior year's schedule and that the receipts and expenditures agree with the grants analysis worksheet and the Department's books or documentation will be provided to explain variances.