

**SOUTH CAROLINA  
DEPARTMENT OF SOCIAL SERVICES**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2008**

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# 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

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

January 23, 2009

The Honorable Mark Sanford, Governor  
and  
Kathleen M. Hayes, PH.D., State Director  
South Carolina Department of Social Services  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of 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, 2008, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these 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 regulations.
- 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 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 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 (\$13,600 - general fund, \$217,400 - earmarked fund, \$11,200 – restricted fund, and \$1,536,700 – federal fund) and  $\pm 10$  percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Refund Payments, Object Codes, and Accounts Receivable Write-Off.

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 in 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 (\$353,400 – general fund, \$219,600 – earmarked fund, \$10,200 – restricted fund, and \$1,558,500 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in ABC Child Care Voucher Procedures 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 if 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 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 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 (\$353,400 – general fund, \$219,600 – earmarked fund, \$10,200 – restricted fund, and \$1,558,500 – federal fund) and  $\pm 10$  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  $\pm 5$  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 Employee Profile Funding Source in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries and operating transfers, and all 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 was 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 Transaction Sequence 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. Our finding as a result of these procedures is presented in Transaction Sequence in the Accountant's Comments section of this report.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General'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 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 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 made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of these procedures is presented in Blanket Bond Approval 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, 2008, 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

9. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Department had taken corrective action. Our findings as a result of these procedures are presented in ABC Child Care Voucher Procedures, GAAP Closing Packages, and Accounts Receivable Write-off in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor  
and  
Kathleen M. Hayes, PH.D., State Director  
South Carolina Department of Social Services  
January 23, 2009

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 elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, 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 of the management of the South Carolina Department of Social Services and is not intended to be and should not be used by anyone other than these specified parties.

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

**ACCOUNTANT'S COMMENTS**



## **SECTION A - VIOLATIONS 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 agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

## REFUND PAYMENTS

We analyzed certain revenue account balances looking for unexpected or unusual balances and variances. Based on our analysis we noted that subfund 3442, object code 7201 (Miscellaneous Revenues) reported negative revenues of \$233,917 for fiscal year 2008 and negative revenues of \$651,665 for fiscal year 2007. It has been determined that the negative balances are the result of inappropriate refund payments perpetrated by the former Director of Finance.

Based on our review of the payments, we identified the following deficiencies in internal control:

- 1) DSS Form 2807 (request for payment) was not signed by a submitter/requester. The form included only the signature of the approver, the former Director of Finance.
- 2) The voucher packages did not include documentation supporting the reimbursement or include a cross reference to the original receipt.
- 3) The vouchers were coded with the "one-time" vendor number 999900021 allowing the transaction to bypass certain vendor set-up controls.
- 4) There was a lack of segregation of duties since the former Director of Finance had the ability to initiate and approve the transactions and receive the checks.
- 5) Finance staff responsible for processing the payments did not notify senior management (above the level of the director of finance) of exceptions to transaction processing procedures described above.

A strong system of internal controls ensures that accounting transactions are supported by original source documentation (e.g., invoices, purchase orders, etc.) to ensure that the transactions are bona-fide accounting transactions, properly requested and initiated, and independently reviewed and approved. In addition, an effective control environment provides employees with an avenue to report suspicious activities and/or exceptions to agency policies and procedures to senior management.

Section 16-13-210 of the South Carolina Code of Laws states, in part, “It is unlawful for an officer or other person charged with the safekeeping, transfer, and disbursement of public funds to embezzle these funds. A person who violates the provisions of this section is guilty of a:

- (1) felony and, upon conviction, must be fined in the discretion of the court to be proportioned to the amount of the embezzlement and imprisoned not more than ten years if the amount of the embezzled funds is five thousand dollars or more.”

The Department became aware of the improper payments in November 2008 and immediately performed a review of internal documents to determine the extent of the improper payments. In addition, the Department notified appropriate State government authorities, including the State Auditor’s Office, and implemented changes to correct the deficiencies in internal controls. In February 2009 the Department contracted with an independent public accounting firm to review the agency’s internal control policies and procedures.

We recommend the Department strengthen its internal controls over voucher processing. Controls should require that refund payments be supported by original receipts and that accounting transactions be independently reviewed and approved. We also recommend the Department establish a policy that encourages staff to report abuses and improprieties to senior management.

### **OBJECT CODES**

During our analytical review of revenues, we noted the Department reported \$7,686 in negative revenues for subfund 3286, Child Support Operating, object code 7201, Miscellaneous Revenue. Upon inquiry of Department personnel, we determined that the miscellaneous child support transfers between subfunds were incorrectly recorded as Miscellaneous Revenue, object code 7201 instead of object code 7221, Miscellaneous Transfers – Other Fund. Additionally, in our review of general fund revenues, we noted

two instances in which receipts associated with refunds of current year expenditures were recorded as miscellaneous revenue, object code 7201, instead of crediting the object code initially charged with the expenditure.

We recommend the Department ensure that personnel responsible for coding accounting transactions are familiar with object code definitions to ensure accurate classification of accounting transactions. We also recommend that the person responsible for approving accounting transactions review object codes for accuracy.

### **EMPLOYEE PROFILE FUNDING SOURCE**

The funding source documented on the Office of Human Resources (OHR) Employee Profile form for seven of twenty-five employees tested did not agree with Comptroller General or Department records.

Section 8-11-230 of the South Carolina Code of Laws requires the OHR to establish and maintain a central personnel data system on all State employees and, in coordination with agencies served, determine the data to be recorded on employees and positions and the procedures and forms to be used by all agencies in reporting data. In order to maintain the integrity and completeness of the central personnel data system (HRIS), all agencies are required to submit appropriate information in a timely manner.

We recommend that the Department update HRIS for all changes in employee information on a timely basis.

### **ABC CHILD CARE VOUCHER PROCEDURES**

During our follow-up of the prior year finding “Disbursement Deficiencies”, we found several ABC Child Care vouchers had not been completed in accordance with the Department’s established procedures. Providers did not always complete the section documenting the number of days that the children were absent and did not explain the reason

why the children were absent as required. The Department's procedures manual requires the provider to document the number of days that the child was absent during the week or enter "0" if the child was not absent. It also requires the provider to enter an explanation for the absence in the comments section of the voucher.

We recommend that the Department follow-up with providers who submit vouchers that do not adhere to Department procedures and ensure that corrections are made prior to processing the vouchers for payment.

### **BLANKET BOND APPROVAL**

South Carolina Code of Laws Section 1-11-180 states that the Budget and Control Board may approve blanket bonds for a State department, agency, or institution including bonds for State officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General. The Budget and Control Board has delegated its responsibility to the State Auditor.

In our review of the Department's compliance with this law, we noted that the Department did not obtain Attorney General and State Auditor approval for its employee blanket bond.

We recommend that the Department comply with the South Carolina Code of Laws Section 1-11-180 and obtain approvals for its blanket bond from the Attorney General and State Auditor as appropriate.

### **GAAP CLOSING PACKAGES**

#### **Introduction**

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared closing packages. We determined that the Office submitted to the CG certain fiscal year 2008

closing packages that were incorrectly prepared and/or misstated. To accurately report the Department's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that "The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors. All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. An adequate internal control system includes safeguards to ensure that your agency detects and corrects its own closing package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's system of internal control could be stronger." Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. The following describes the errors noted on certain fiscal year 2008 closing packages:

### **Inventory**

The Department did not indicate on the closing package the inventory valuation method used. GAAP Manual section 3.6 states: "Enter the inventory valuation method your agency used."

We recommend the Department follow GAAP instructions including using the reviewer's checklist to ensure that all required information is reported on the closing package.

## **Interfund Payables**

GAAP Manual section 3.18 provides instructions for the interfund payables closing package. This section states: "Identify all new-year STARS FM 01 and FM 02 individual payments to other agencies within the State's financial reporting entity (see Key Terms) of \$100,000 or more, and all new-year FM 01 and FM 02 individual payments to other GAAP fund codes within your own agency of \$100,000 or more." Our review of the closing package disclosed two instances in which the Department included individual payments under \$100,000. We determined that Department personnel incorrectly included non-cash local matching funds which caused the payment amounts to exceed \$100,000.

We recommend that Department personnel who prepare and review the closing package perform a more careful review of payments to ensure conformance with the GAAP Manual criteria.

## **Accounts Payable**

The accounts payable closing package included vouchers with a total voucher amount of less than \$5,000 each. GAAP Manual section 3.12 states: "Determine which items to report on Accounts Payable Summary Forms (GAAP Forms 3.12.1 through 3.12.3) by... Reviewing voucher packets for vouchers paid in STARS FM 01 and FM 02 of the new fiscal year and invoices your agency plans to pay in the new fiscal year. Exclude from this review vouchers with a total voucher amount of less than \$5,000." We determined that Department personnel incorrectly included non-cash local matching funds which caused the total voucher amounts to exceed \$5,000.

We recommend that Department personnel who prepare and review the closing package perform a more careful review of payments to ensure conformance with the GAAP Manual criteria.

## **Cash and Investments**

The Department did not report the historical cost of investments on the cash and investments closing package. We were told that the Department did not have the historical cost data available. GAAP Manual section 3.1 states “Report the June 30 investment balance by entering the historical cost of your investment in the Reported Amount column.”

We recommend that the Department properly maintain all data required for the cash and investments closing package.

## **Operating Leases**

Our review of the Department’s operating lease closing package disclosed the following:

1. The Department did not complete Part III of the Operating Leases Summary Form which requires the agency to indicate whether it has any operating leases with rent holiday provisions.
2. The Department understated future minimum lease payments by \$4,069 for two leases on the operating leases closing package. The errors were attributable to two leases:
  - #38440 - the Department computed future minimum lease payments using the invoice amount of \$24 rather than the lease agreement amount of \$67. Additionally, the Department used an incorrect sales tax rate of 6%. The equipment was located in a county to which a 7% sales tax applies.
  - #38555 - the Department failed to include 7% sales tax in its computation of future minimum lease payments.



GAAP Manual section 3.19 states: “The minimum lease payment is the minimum payment that the lessee must pay to the lessor during the fiscal year as specified in the lease agreement... Sales tax should be included as part of the minimum lease payment.”

3. Twenty State of South Carolina standard equipment agreements did not indicate the dates that the leases were signed. We were therefore unable to determine if an obligation for future lease payments existed at June 30, 2008. GAAP Manual section 3.19 states “Leases in effect at June 30 include lease agreements signed on or before June 30. Your agency’s obligation begins when both parties sign the lease agreement, whether the lease payments begin before or after June 30.”
4. Seven leases included on the closing package were not supported by lease registers demonstrating that the leases are operating. Therefore, we were unable to determine if the leases were properly included on the closing package. GAAP Manual section 3.19 states “Note that for audit purposes, you must retain a completed Lease Register, including Item 11, for each lease your agency has entered into. The State Treasurer requires that you complete a Lease Register at the beginning of the lease term, before making the first lease payment. This helps to ensure that you properly classify each lease as a capital lease or an operating lease in accordance with generally accepted accounting principles. Consult the State Treasurer’s Office staff if you have questions.”

We recommend that the closing package preparer and reviewer be knowledgeable of GAAP Manual instructions. We also recommend that the preparer calculate future minimum lease payments based on the lease agreement information and use the appropriate sales tax in the calculation. Finally, the Department should ensure that all relevant information used to complete the closing package, including the date signed, be documented on the lease agreements.

## **SECTION B - OTHER WEAKNESSES**

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

## **ACCOUNTS RECEIVABLE WRITE-OFF**

During our follow-up of the prior year finding “Vouchers not Completed Correctly”, we noted that two EV vouchers used to write off accounts receivable balances were not approved by someone independent of the person who prepared and recorded the vouchers.

A strong system of internal controls requires appropriate segregation of duties so that one individual does not have the ability to initiate, approve, and record transactions.

We recommend that the Department establish appropriate segregation of duties over the processing of its EV transactions.

## **TRANSACTION SEQUENCE**

Effective internal controls require that the agency maintain the numerical sequence of transactions to ensure that all transactions are accounted for and are properly recorded. During our testing we noted several instances in which document sequences were not properly maintained.

1. We noted six journal entry numbers that were assigned to two transactions each. Some of the entries were assigned to loan advances with the same number again assigned to the loan repayment. Other entries were for correcting or reversing previously made entries and were assigned the same number as the original entries.
2. The Office records two types of journal entries as JE or JVE numbers. JE type journal entries are internally generated and numbered sequentially, except as noted in 1 above. JVE type journal entries originate at other State agencies and are not sequentially numbered. The Department assigned the external JVE numbers to the transactions in its accounting system. Therefore, the JVE journal entries were not in numerical sequence and we were unable to determine whether the Department had provided us with a complete population of journal entries for testing.

We recommend that the Department implement procedures to ensure that all transactions are assigned unique document numbers in sequence.

**SECTION C - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2007, and dated June 3, 2008. We determined that the Department has taken adequate corrective action on each of the findings except as follows:

**2007 FINDING**

**2008 FINDING**

Disbursement Deficiencies

ABC Child Care Voucher Procedures

Closing Packages

GAAP Closing Packages

Inventory

Inventory

Cash and Investments

Cash and Investments

Operating Leases

Operating Leases

Voucher Not Completed Correctly

Accounts Receivable Write-Off

**MANAGEMENT'S RESPONSE**

## REFUND PAYMENTS

The Department of Social Services takes seriously the integrity and accuracy of the financial system and processes and has identified and implemented measures to assure the security of the financial system. The Department continues to fully cooperate with the criminal investigation and the Department has made it clear that it supports prosecution of the charges against the former Director of Financial Services and his accomplices to the fullest extent of the law. The Department is pursuing all possible actions that will result in restitution of the funds. The Department continues to update the leadership of the General Assembly, central State Government, and other agencies as to what the Department is doing to assure its financial systems integrity and accuracy are now secure.

On January 15, 2009, former Director of Financial Services who abruptly resigned October 16, 2008, was arrested on charges of mail fraud, wire fraud, check fraud, money laundering and other Federal crimes involving the financial infrastructure of the United States. He has been charged with embezzling \$5,182,418 million over a period of four years beginning in 2004. Utilizing his knowledge of the system and his position of authority and trust, he was able to avoid audit detection and other financial safeguards by intentionally circumventing controls and eliminating detail transaction reports with criminal intent. His actions during this four year period were designed to avoid detection by management and internal and external auditors.

After seeking permission from the US Attorney's Office in November 2008, the Senior Deputy State Director for Administration and Program Support informed the State Auditor's Office Audit Manager of an ongoing investigation of an alleged embezzlement and process used as described by the US Attorney's Office. Due to the ongoing criminal investigation, the Department was not allowed by the US Attorney's Office to implement any changes to address deficiencies in internal control until January 15, 2009 when the former finance director was arrested.

The Department has addressed the deficiencies as follows:

- 1) *DSS Form 2807 was not signed by a submitter/requester.*

Effective January 16, 2009, the Department reaffirmed to all finance staff with signature authority, the Department's policy to require a separate submitter/requester and approver signature on all financial transactions.

- 2) *The voucher packages did not include documentation supporting the reimbursement or include a cross reference to the original receipt.*

Since January 16, 2009, the Department requires that all refunds have complete documentation of the original receipt.

- 3) *The vouchers were coded with the "one-time" vendor number 999900021 allowing the transaction to bypass certain vendor set-up controls.*

Since there are legitimate reasons to use "one-time" vendor numbers, the Department cannot eliminate the use of these codes. However, in order to monitor these codes, the Department immediately developed reports detailing all transactions utilizing a "one-time" vendor number. As of July 2009, reports are reviewed on a quarterly basis and vendor transactions appearing multiple times are investigated and the appropriate corrective measures taken.

- 4) *There was a lack of segregation of duties since the former Director of Finance had the ability to initiate and approve the transactions and receive the checks.*

As of January 16, 2009, the Department's policy is that the Director of Financial Services shall only have "read" and "query" access to the accounting systems. Any rare exceptions must have the joint approval in writing of the Senior Deputy State Director for Administration and the Director of Internal Audit. In conjunction with the Internal Audit Division, the Department has reviewed and updated its policy for the distribution of checks.

- 5) *Finance staff responsible for processing the payments did not notify senior management of exceptions to transaction processing procedures described above.*

Effective January 23, 2009, the Department implemented a new fraud detection communication policy. This policy directs Division of Financial Services' staff with questions about the nature of any financial transaction to be reported immediately to either the Director of Internal Audit or the State Director.

Additional major measures taken by the Department are:

- On January 21, 2009, the Department requested a new independent external review of the Agency's financial internal controls, policies and procedures to determine whether there are any additional controls that are required to ensure the security of the Department's financial system, and are in the process of implementing these recommendations. Recommendations from this review included:
  - Staff authorized to sign vouchers and other financial documents must initial the Agency copy when signing the original documents.
  - Standardization of financial processes to provide integrity and accuracy.
  - Initiate procedures for the security of financial documents.
  - Improve coordination of financial processes between divisions.
- Effective January 26, 2009, the Department's Internal Audit function was realigned under the direct control of the State Director to ensure independence of reviews.



- The Department's Internal Auditor is conducting reviews of the security authorization and internal controls on a random unannounced basis, including monitoring the signature process. The first of these unannounced reviews was conducted on March 10, 2009.
- The Department hired a dedicated person to update the Financial Services Policy and Procedures Manual to reflect improved internal controls. This is scheduled to be completed by November 1, 2009.
- On March 4, 2009, the Department implemented a Fraud Prevention Hotline.
- The Department recruited and hired two staff (a Certified Public Accountant and a Certified Fraud Examiner) in the Internal Audit Division with over twenty-five years of combined state experience to implement and direct the Department's Fraud Detection and Prevention Program.
- The Department continues to brief state agencies on the embezzlement and changes the Department has initiated to assure its financial systems integrity and accuracy thereby mitigating risk of fraud within state financial systems.

### **OBJECT CODES**

The Department agrees with the finding regarding miscellaneous revenue, object code 7201. The new Director of Financial Services is initiating ongoing training for personnel responsible for preparing deposits. Training includes department policy and procedures, as well as, central state government financial procedures.

### **EMPLOYEE PROFILE FUNDING SOURCE**

The Department agrees with the finding. The Department determined the primary cause for the funding source discrepancy was its internal notification process. All parties involved with the process met to establish procedures that will ensure timely processing of all changes to include timely input to the central personnel data system (HRIS). Additionally, the Human Resource Management Division is implementing a quarterly review process to ensure compliance.

### **ABC CHILD CARE VOUCHER PROCEDURES**

The Department agrees with the finding. On July 1, 2009, the Division of Child Care Services revised the ABC Child Care voucher policy and the payment form so providers are unable to submit payment forms prior to the end of the service period.

## **BLANKET BOND APPROVAL**

The Department agrees with this finding. Responsible staff has been advised of the requirement to obtain Attorney General and State Auditor approval and will obtain advance approval of the form and execution of subsequent blanket bonds.

## **GAAP CLOSING PACKAGES**

The Division of Financial Services is currently implementing processes to ensure GAAP compliance in preparation of Agency closing packages. The Internal Audit Division will assist by reviewing closing package checklists to ensure that each closing package is complete.

### **Inventory**

The Department agrees with the finding. The Department will complete the reviewer's checklist to ensure that information provided on the Inventory closing package is complete and accurate.

### **Interfund Payables**

The Department agrees with the finding. The position responsible for completion of this closing package is currently vacant. The Department is in the process of filling this position. Once filled, the Department will provide training in the preparation of the Interfund Payables closing package.

### **Accounts Payable**

The Department agrees with the finding. The position responsible for completion of this closing package is currently vacant. The Department is in the process of filling this position. Once filled, the Department will provide training in the preparation of the Accounts Payables closing package.

### **Cash and Investments**

The Department agrees with the finding. The Department is reviewing the classification of investments listed on the package. Future closing packages will correctly classify investments and include historical costs.

### **Operating Leases**

The Department agrees with the finding. The position responsible for completion of this closing package is currently vacant. The Department is in the process of

filling this position. Once filled, the Department will provide training in the preparation of the Operating Leases closing package.

### **ACCOUNTS RECEIVABLE WRITE-OFF**

The Department agrees with the finding. Effective January 16, 2009, the Department initiated segregation of duties to ensure adequate internal control for the Accounts Receivable Write-Off process.

### **TRANSACTION SEQUENCE**

The Department agrees with the finding. Effective May 18, 2009, the process of using the same journal entry number to reverse loan advances and correct journal entries was discontinued.

4 copies of this document were published at an estimated printing cost of \$1.84 each, and a total printing cost of \$7.36. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.