

**SOUTH CAROLINA  
DEPARTMENT OF SOCIAL SERVICES**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2010**

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# State of South Carolina



## Office of the State Auditor

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

September 15, 2011

The Honorable Nikki R. Haley, Governor  
and  
Ms. Lillian Koller, 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 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, 2010, 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. Effective May 2, 2010 the agency implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the agency.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

The Honorable Nikki R. Haley, Governor  
and  
Ms. Lillian Koller, State Director  
South Carolina Department of Social Services  
September 15, 2011

- 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 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 (\$15,500 – general fund, \$214,900 – earmarked fund, \$10,500 – restricted fund, and \$3,070,300 – 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 Account Coding and Transaction Sequence 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 in various STARS reports to determine if recorded expenditures were in agreement. Effective May 2, 2010 the agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the agency.
- 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 (\$600,700 – general fund, \$190,600 – earmarked fund, \$11,300 – restricted fund, and \$3,151,800 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Expenditure Cut-Off and Transaction Sequence 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.
- 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. Effective May 2, 2010 the agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the agency.
- 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 (\$600,700 – general fund, \$190,600 – earmarked fund, \$11,300 – restricted fund, and \$3,151,800 – 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 Termination Pay 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 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. We found no exceptions as a result of the procedures.

5. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2010, 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. Effective May 2, 2010 the agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the agency.

We found no exceptions as a result of the procedures.

6. **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.

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

7. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2010, 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 Items Reported in Statewide Engagements, Petty Cash Authorization and Interfund Payables Closing Package in the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2010, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting work papers and accounting records.

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

9. **SCEIS Implementation**

- We compared cash, revenue and expenditure account closing balances from the agency's legacy system to opening balances input into SCEIS to ensure that the agency carried forward the proper account balances to SCEIS.

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

10. **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, 2008, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2009.

Our findings as a result of these procedures are presented in Interfund Payables Closing Package, Account Coding, Blanket Bond Approval, and Transaction Sequence 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 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.



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.

## ITEMS REPORTED IN STATEWIDE ENGAGEMENTS

During the performance of this engagement, we noted exceptions which were similar to findings reported at the Statewide-level for the fiscal year ended June 30, 2010. Rather than repeating the details of these findings already reported, we have summarized the findings as follows:

| <u>Finding</u>                           | <u>Audit Engagement Where Reported</u> |
|--|--|
| Schedule of Federal Financial Assistance | Statewide Single Audit                 |
| Conversion Journal Entries               | Statewide Single Audit                 |
| Capitalization of Project in Progress    | Statewide Single Audit                 |
| Cost Allocation                          | Statewide Single Audit                 |
| Eligibility                              | Statewide Single Audit                 |
| Refunds Receivable Closing Package       | Statewide Report on Internal Controls  |

In addition, the Department's Grants/Contributions Receivable Closing Package included errors in the grants analysis worksheet which resulted in misstatements of approximately \$2 million. This exception was not reported at the Statewide-level, but was reported to the proper level of management during the audit of the state's financial statements.

We recommend that the Department continue with the implementation of its corrective action plan associated with these findings.

## **TERMINATION PAY**

For one of twenty-five termination payments randomly selected for testing, the annual leave payout was calculated at a rate other than the employee's rate of pay at separation. The Department's calculation used the employee's part-time salary at termination divided by the employee's previous full-time hours resulting in an inaccurate hourly rate and underpayment of approximately \$30. State Office of Human Resources (OHR) regulations specifies that an annual leave payout should be calculated based on the employee's rate of pay at separation. This is consistent with the Comptroller General's Office guidelines for the computation.

We recommend that the Department ensure that annual leave payouts at termination be calculated based on the employee's rate of pay at separation.

## **EXPENDITURE CUT-OFF**

We tested twenty-five disbursements to ensure that the transaction was recorded in the proper fiscal year. Based on the tests performed we determined that the Department recorded an interdepartmental disbursement for items purchased and received in fiscal year 2010 in fiscal year 2011. Department personnel explained that they had encountered problems processing interdepartmental disbursements in the new statewide accounting system.

The State Treasurer year-end close-out procedures require that expenditures be recorded in the same fiscal year that the good or service occurs.

We recommend that the Department adhere to State Treasurer year-end close-out procedures and ensure that all expenditures are recorded in the proper fiscal year.

## **PETTY CASH AUTHORIZATION**

We tested the Department's cash and investments closing package and determined that the Department did not have authorization for several county office petty cash accounts.

Section 4.2.20.1 of the Comptroller General's Statewide Accounting and Reporting Manual requires State Auditor approval to establish a petty cash fund.

We recommend that the Department ensure that all petty cash accounts have State Auditor approval and that the authorized balances are properly reported at year-end.

## **INTERFUND PAYABLES CLOSING PACKAGE**

The Department's agreed upon procedures report for the fiscal year ended June 30, 2008 included a comment pertaining to errors in the Department's interfund payables closing package. We tested the Department's fiscal year 2010 interfund payables closing package to ensure that it was accurate and supported by the Department's accounting records. Based on the tests performed we determined that the Department reported three payables totaling \$350,000 which related to loan payments between GAAP funds. Section 3.18 of the Comptroller General's GAAP Closing Procedures Manual specifies that loan payments between GAAP funds should be reported on the closing package control checklist and not on the interfund payables closing package. It also explains that the purpose of the interfund payable closing package is to identify interfund payables owed at June 30 and paid in the new fiscal year. One reported payable of approximately \$1.2 million related to a canceled transaction and should not have been reported in the closing package.

Department personnel explained that turnover in key, experienced employees and the implementation of the new statewide accounting system contributed to the exceptions identified on the 2010 interfund payables closing package.

We recommend that the Department develop and implement procedures to ensure that year-end closing packages are accurate and completed in accordance with Comptroller General's Office instructions.

### **ACCOUNT CODING**

The Department's agreed-upon procedures report for the period ended June 30, 2008 included a finding titled Object Codes. The finding documented that the Department had miscoded certain transfers and receipt transactions.

During this engagement we determined that the Department had again miscoded transfers and receipt transactions. We determined that the Department miscoded an \$800,000 General Fund transfer of Title IV-D Recoveries revenue (Object Code 7217/General Ledger Account 4530090000). The Department erroneously recorded the transaction as Miscellaneous Transfer (Object Code 7221/General Ledger Account 6100010000). Additionally, three federal operating grant draws (Object Code 2822/General Ledger Account 4280020000) totaling approximately \$3.5 million, were recorded as Food Stamp Project Fair Recoveries (Object Code 2812/General Ledger Account 4280050000).

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

## **BLANKET BOND APPROVAL**

The Department's agreed-upon procedures for the fiscal year ended June 30, 2008 reported that the Department did not have Attorney General or State Auditor approval for its employee blanket bond as required by Section 1-11-180 of the South Carolina Code of Laws.

Our follow-up of the Department's corrective action for this finding disclosed that, although communications had been made to address the finding, the Department continued to operate without approval by the Attorney General or the State Auditor.

We again recommend the Department take appropriate corrective action to ensure that its employee blanket bond coverage is approved by the Attorney General and the State Auditor as required by the South Carolina Code of Laws.

## **SECTION B - OTHER WEAKNESS**

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

## **TRANSACTION SEQUENCE**

The Departments agreed-upon procedures report for the fiscal year ending June 30, 2008 included a finding titled Transaction Sequence. This finding reported that the Department did not maintain accountability over the numerical sequence of some transaction types. Our test of fiscal year 2010 transactions revealed a similar finding.

The Department could not account for the numerical sequence of one receipt transaction and one disbursement transaction. The transactions were recorded in the Department's legacy accounting system. The Department could not provide documentation to demonstrate that the documents were cancelled but the Department could demonstrate that neither document was used. The Department demonstrated that the documents were cancelled in its legacy accounting system, but it did not maintain documentation to demonstrate that the transactions were cancelled.

Although the legacy accounting system is no longer used by the Department, we recommend that the Department develop and implement controls to properly account for the numerical sequence of accounting transactions and that all transactions, both used and cancelled, are adequately documented and accounted for.



**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, 2008, and dated January 23, 2009. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2009. We determined that the Department has taken adequate corrective action on each of the findings except as follows:

**2008 FINDING**

Interfund Payable

Object Codes

Blanket Bond Approval

Transaction Sequence

**2010 FINDING**

Interfund Payables Closing Package

Account Coding

Blanket Bond Approval

Transaction Sequence

**MANAGEMENT'S RESPONSE**



*Serving Children and Families*

LILLIAN B. KOLLER, J.D.  
STATE DIRECTOR

NIKKI R. HALEY  
GOVERNOR

November 22, 2011

Mr. Richard H. Gilbert, Jr., CPA  
Interim State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Gilbert:

The South Carolina Department of Social Services respectfully submits the following release for the 2010 State Fiscal Year AUP Audit. We wish to have the following responses and comments regarding the matters discussed in the Accountant's Comments included in your final report.

**ITEMS REPORTED IN STATEWIDE ENGAGEMENTS:**

**Finding**

**Audit Engagement Where Reported**

Schedule of Federal Financial Assistance

Statewide Single Audit

The 2011 SFY SFFA has been reviewed and reconciled by a senior manager for compliance with State Auditor's guidelines. As a result, several 2010 SFY ending balances need to be adjusted. We are working with the State Comptroller General and State Auditor's offices to allow these adjustments to be posted in SCEIS.

Conversion Journal Entries

Statewide Single Audit

DSS contacted the SCEIS Project defining our approval and documentation standard for all of the agency's journal entries. No more journal entries outside of DSS internal control will be processed. SCEIS conversion journal entries were a one-time occurrence.

Capitalization of Project in Process

Statewide Single Audit

We met with the SCEIS Project Team defining the scope and costing structure for the Statewide Child Support and Family Court System. The SCEIS team is advising DSS on the appropriate methodology for an intangible capital project of this nature, considering its unique costing functionality. The project will be reported in the department's 2012 GAAP Reporting Capital Assets Package.

Cost Allocation

Statewide Single Audit

DSS has reviewed the current cost allocation plan and submitted three amendments to the U.S. Department of Health and Human Services dated April 1, 2011, July 1, 2011 and October 1, 2011. Approval of the plan amendments is still pending. The DSS Internal Audit Division will now perform independent reviews of plan modifications to ensure compliance with federal requirements.

Eligibility

Statewide Single Audit

Child Care Services program staff continue to conduct monthly policy review meetings to discuss potential changes or clarifications to be made to the ABC Child Care Policy Manual. Additional policy meetings are convened, as needed, to resolve questions that come from the county or state office child care staff. State Office child care eligibility workers are performing desk reviews to ensure eligibility has been determined appropriately and properly entered into the system.

Child care cases are monitored monthly via the Active Caseload Report and CPS/Foster Care Statewide Payments report to ensure continued eligibility. Staff uses these reports to manually monitor existing data systems via CHIP, PATS, CAPSS, and SCOSA. This process will be more automated with the re-write of the ABC Child Care Voucher System.

Child Care Services has received approval to move the remaining Family Independence (FI) and FI/Child-Only child care staff from the counties to the State Office to further improve consistency in the eligibility determinations and documentation. Management has granted permission to hire nine temporary grant positions to assist with this initiative.

Refunds Receivable Closing Package

Statewide Report on Internal Control

In consultation with external auditors, an amended closing package was submitted on October 27, 2010, utilizing a revised methodology for computing the Allowance for Uncollectible Accounts. The department will continue to use this revised methodology.

**TERMINATION PAY**

We have trained staff to ensure all annual leave payouts are calculated based on the employee's rate of pay at separation as outlined in the Comptroller General's guidelines for computation.

**EXPENDITURE CUT-OFF**

We have trained staff to ensure compliance with State Treasurer and State Comptroller General guidelines for end of fiscal year due dates.

**PETTY CASH AUTHORIZATION**

Internal Audits and Financial Services staff have coordinated with DSS county offices to properly report Petty Cash Funds for its GAAP Reporting Cash and Investment Package. Internal audit's has verified that Sumter County Department of Social Services is the only county office authorized to maintain a Petty Cash Account. DSS is in the process of obtaining State Auditor's approval.

**INTERFUND PAYABLES CLOSING PACKAGE**

We have trained staff to review the State Comptroller General Policies and Procedures Manual for preparation and reviewer check lists criteria for yearend GAAP Reporting packages. The State Comptroller General's document Preparation of Journal Entries was distributed to staff, and it defines the policy and procedures for Interfund Payables transactions. An amended package was submitted on September 27, 2010 with loans of \$100,000.00 and greater in value.

**ACCOUNT CODING**

We have trained staff to verify the General Ledger (GL) code description to the source document and approvers are to confirm that documentation does match the input GL. DSS developed a tailored SCEIS Chart of Accounts with STARS Object code, description and corresponding SCEIS GL code and distributed to staff. In addition, a copy of the State Comptroller General's document Preparation of Journal Entries was distributed to staff.

**BLANKET BOND APPROVAL**

DSS concurs with the finding. DSS will, according to Section 1-11-180, obtain Attorney General and State Auditor prior approval and maintain the approval on file for the 2011 Agreed Upon Procedures engagement for any future blanket bonds.

**TRANSACTION SEQUENCE**

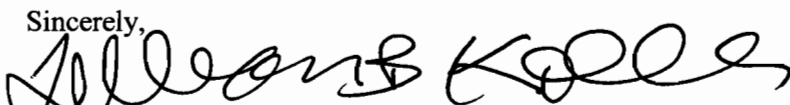
DSS went live on the statewide SCEIS System on May 03, 2010. In conjunction with "Go Live," DSS implemented a process that ensures all journal entry, payable and receivable documents are processed with supporting documentation. The SCEIS System work flow requires an initiator, preparer and approver, unlike the legacy GAFRS System. All journal entries are now processed in our general ledger division and proper procedures are followed.

**SECTION C – STATUS OF PRIOR FINDINGS**

All prior findings have been addressed in our management's responses above.

If you have any questions regarding our management's responses, please contact William Bray, Chief of Fiscal and Governmental Affairs at 898-7225.

Sincerely,



William B. Koller, J.D.  
State Director

LBK:blr

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