

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

For the Fiscal Year Ended June 30, 2012

State of South Carolina



Office of the State Auditor

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June 27, 2013

The Honorable Nikki R. Haley, Governor
and
Lillian B. Koller, 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, 2012, was issued by The Hobbs Group, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

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

RHGjr/trb

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COLUMBIA, SOUTH CAROLINA
For the Year Ended June 30, 2012

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

June 26, 2013

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of the South Carolina Department of Social Services (the "Agency"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2012, in the areas addressed. The Agency'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 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 account 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 (\$5,500 – general fund, \$1,060,000 – earmarked fund, \$3,000 – restricted fund, and \$6,900,000 – federal fund) and ± 10 percent.

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

2. Non-Payroll Disbursements and Expenditures

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Agency's policies and procedures and State regulations, were bona fide disbursements of the Agency, 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 current year expenditures at the subfund and account 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 (\$480,000 – general fund, \$940,000 – earmarked fund, \$3,300 – restricted fund, and \$6,800,000 – federal fund) and ± 10 percent.

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

3. Payroll Disbursements and Expenditures

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions 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 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 paycheck 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 account 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 (\$480,000 – general fund, \$940,000 – earmarked fund, \$3,300 – restricted fund, and \$6,800,000 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

The individual transactions selected were chosen haphazardly. 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 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 haphazardly. Our finding as a result of these procedures is presented in Appropriation Transfers in the Accountant's Comments Section of the report.

5. Composite Reservoir Accounts

Reconciliations

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2012 and inspected selected reconciliations of balances in the Agency's accounting records to those reflected on the State Treasurer's Office monthly 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 Agency's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records.

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.

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 Agency, 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.

The reconciliations selected were chosen randomly. The cash receipts and disbursement transactions were selected randomly. 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.

We found no exceptions as a result of the procedures.

7. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2012, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

8. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2012, prepared by the Agency 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 workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. Status of Prior Finding

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from the engagement for the fiscal year ended June 30, 2010, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2011.

Our findings as a result of these procedures are presented in Blanket Bond Approval in the Accountants' 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, management of the South Carolina Department of Social Services, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA
Columbia, South Carolina

ACCOUNTANTS' 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.

Appropriation Transfers

We tested twenty-five appropriation transfers and found that five were not properly approved by someone other than the preparer. Our discussions with the Agency have led us to conclude that this is an issue caused by the mapping in SCEIS in which certain individuals are authorized to prepare and record interagency appropriation transfers without approval by another member of the Agency as required by Section 11-11-160 of the South Carolina Code of Laws.

We recommend that the Agency contact the SCEIS agency support team and discuss the appropriation transfers mapping issue. Until such time as the mapping issue is resolved, we recommend that the Agency print a hard copy of each transfer and manually document the independent review and approval. The approved independent review document can then be scanned and posted to SCEIS.

Blanket Bond Approval

The Agency's agreed-upon procedures for the fiscal year ended June 30, 2010 reported that the Agency 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 Agency's corrective action for this finding disclosed that, although communications had been made to address the finding, the Agency continued to operate without approval by the Attorney General or the State Auditor up until the policy expired in February 2012. The Agency contacted the Attorney General for approval and did not receive a response. Due to miscommunication between Agency personnel there was no follow up with the Attorney General's office on a response.

We recommend that any future bonds be approved by the Attorney General and the State Auditor as required by the South Carolina Code of Laws.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Agency for the fiscal year ended June 30, 2010, and dated September 15, 2011. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2011. We determined that the Agency has taken adequate corrective action on each of the findings entitled Termination Pay, Expenditure Cut-Off, Petty Cash Authorization, Interfund Payables Closing Package, Account Coding, and Transaction Sequence. We noted a continuing deficiency regarding Blanket Bond Approval as detailed in Section A of the Accountants' Comments Section of the report.

MANAGEMENT'S RESPONSE

Attachment A

DSS

Serving Children and Families

LILLIAN B. KOLLER, J.D.
STATE DIRECTOR

NIKKI R. HALEY
GOVERNOR

June 27, 2013

Ms. Ally Rivers, CPA
The Hobbs Group PA
1704 Laurel Street
Columbia, South Carolina 29201

Dear Ms. Rivers:

The South Carolina Department of Social Services respectfully submits the following release for the 2012 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

Appropriation Transfers

The Department of Social Services concurs with the finding. Accordingly the agency has contacted SCEIS, a division of the Budget and Control Board, regarding the mapping levels of responsibility, and approval for preparing inter-agency budget transfers. A SCEIS help desk ticket, incident number 590705, was filed, but the mapping in SCEIS will not permit the "approval role" and "preparer role" to be assigned to one individual, the Assistant Budget Director in the budget office. Therefore, the agency has instituted an internal approval process to comply with Section 11-11-160 of the South Carolina Code of Laws, when budget transfers must be prepared by the assistant budget director. The Budget Director will approve and maintain a FMBB Transfer Entry document prior to the Assistant Budget Director entering transactions into SCEIS.

Blanket Bond Approval

The Department of Social Services concurs with the finding. Correspondence was drafted by the agency to the South Carolina Attorney General's Office to request retroactive approval for our 2010 blanket bond approval. Follow up on the part of the agency was not done, and resulted in our not receiving approval. The agency will seek approval for future bonds to comply with Section 1-11-180 of the South Carolina Code of Laws.

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

Sincerely,



Lillian B. Koller, J.D.
State Director

LBK:blr