

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

June 30, 2013

State of South Carolina



Office of the State Auditor

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May 15, 2014

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, 2013, 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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June 30, 2013

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

May 15, 2014

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, 2013, 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 (\$8,500 – general fund, \$859,000 – earmarked fund, \$3,000 – restricted fund, and \$6,700,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented in Account Coding in the Accountant's Comments Section of the 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 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 (\$459,000 – general fund, \$859,000 – earmarked fund, \$3,000 – restricted fund, and \$6,700,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented in Account Coding in the Accountant's Comments Section of the 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 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 (\$459,000 – general fund, \$859,000 – earmarked fund and \$6,700,000 – 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, 2013 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, 2013, 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 GAAP Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our finding as a result of the procedures is presented in Reporting Packages in the Accountants’ 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, 2013, 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 findings 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, 2012, to determine if the Agency had taken corrective action.

We found no exceptions as a result of the procedures.

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

In performing procedures over appropriation transfers we inspected twenty-five transfers. The Agency could not provide supporting documentation for three of the twenty-five appropriation transfers inspected.

Section 89.9 of the FY 2012 – 13 Appropriation Act authorizes agencies to transfer appropriations within programs. Upon request, details of such transfer may be provided to members of the General Assembly.

Supporting documentation for appropriations transfers is not scanned and staff did not retain the supporting documentation. As a result, we could not determine if the Agency properly described, approved, and classified the appropriation transfers.

We recommend the Agency implement procedures that require supporting documentation be retained for all appropriations transfers. We also recommend that the Agency scan supporting documentation into SCEIS so that it can be accessed by the Office of the Comptroller General when a review of this documentation is necessary.

REPORTING PACKAGES

Compensated Absences Package

In our review of the compensated absences reporting package we noted three instance in which the annual leave balance per the employees' leave statement did not agree to the annual leave balance from the Compensated Absence Report generated by South Carolina Enterprise Information System which was utilized to prepare the compensated absences reporting package. Employee leave statements for the three employees documented annual leave balances totaling 937.08 hours while the Compensated Absence Report documented leave balances totaling 970.08. These errors were an oversight by the preparer which were not detected during the review.

Section _.17 Other Payroll Related Liabilities of the State of South Carolina Office of the Comptroller General Reporting Policies and Procedure Manual states "A Compensated Absence Report will be generated centrally with each Department's information distributed for review and identification of omissions and errors. Discrepancies in the liability amount resulting from funding sources, percentages, wage rates, or balance of hours should be reported along with omissions of employees on the Compensated Absences Summary Form."

We recommend that Agency personnel responsible for completing and reviewing the reporting packages review instructions for completing the packages and compare the underlying working papers prior to submission to eliminate errors.

ACCOUNT CODING

We investigated significant changes between current year and prior year revenues and expenditures at the subfund and account level to ensure that revenues were classified properly in the Agency's accounting records. Through this procedure, management became aware that a revenue and an expenditure were miscoded. The Agency inappropriately coded \$1,743,311 as Miscellaneous Revenue – Child Support Enforcement (General Ledger Account 4530030014) when the amount should have been coded to Title IV-D Recoveries State (General Ledger Account 4530090000) within the Earmark Child Support Operations. The Agency also inappropriately coded \$2,195,465 as Other Professional Services (General Ledger Account 5201540000) in the General Fund when the amount should have been coded to Classified Positions (General Ledger Account 5010580000) in the Federal Fund.

The misclassifications occurred as a result of errors made by accounting staff when preparing journal entries to correct revenue and expenditures accounts. The errors were not detected by management during the review and approval process.

We recommend the Agency ensure the person responsible for approving accounting transactions review account coding more closely for accuracy.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency for the fiscal year ended June 30, 2012, and dated June 27, 2013. We determined that the Agency has taken adequate corrective action on the finding entitled Appropriation Transfers. The blanket bond expired on February 1, 2012, at which time the policy was not renewed and the Agency has not entered into another policy as of June 30, 2013. The Agency has agreed to seek approval for future bonds to comply. However, because the Agency has not entered into a blanket bond policy we were not able to perform any procedures over approval.

MANAGEMENT'S RESPONSE

Attachment A

DSS

Serving Children and Families

LILLIAN B. KOLLER, J.D.
STATE DIRECTOR

NIKKI R. HALEY
GOVERNOR

May 19, 2014

Ms. Laura M. Spells, CPA
The Hobbs Group, P.A.
1704 Laurel Street
Columbia, South Carolina 29201

Dear Ms. Spells:

The South Carolina Department of Social Services respectfully submits the following release for the 2013 State Fiscal Year Agreed-Upon Procedures (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.

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS:

Appropriation Transfers

The Department of Social Services disagrees that this finding is violation of state law, rules, or regulations; however, we concur with the finding being a "best practice." The agency has instituted an internal process where supporting documentation will be scanned into SCEIS that properly describes, approves, and classifies the transfer. In addition, dedicated budget office scanners have been installed which will facilitate the SCIES documentation process.

Reporting Packages – Compensated Absences Package

The Department of Social Services will continue to encourage all leave approvers (i.e., managers and supervisors) and human resource liaisons, to have leave time submitted and approved during the actual month of the event.

Account Coding

The Department of Social Services wishes to clarify the finding by noting that during this audit, only two account coding errors were found, both of them due to human coding errors. Overall revenues and expenditures were correct. The agency will ensure that journal entry transactions are more closely scrutinized for accuracy in the use of general ledger codes, so that revenues and expenditures are properly classified.

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

Sincerely,



Lillian B. Koller, J.D.
State Director
LBK:br