

**SOUTH CAROLINA
DEPARTMENT OF ALCOHOL
AND OTHER DRUG ABUSE SERVICES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 13, 2008

The Honorable Mark Sanford, Governor
and
Mr. W. Lee Catoe, Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of South Carolina Department of Alcohol and Other Drug Abuse Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2007, in the areas addressed. The Department'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 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 (\$6,500 – earmarked fund, \$600 – restricted fund, and \$33,400 – federal fund) and ± 10 percent.

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The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Revenue Object Codes and Cash Receipts 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.
- 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 (\$27,100 – general fund, \$6,500 – earmarked fund, \$600 – restricted fund, and \$33,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Procurement Exemption 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.

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- 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 (\$27,100 – general fund, \$6,500 – earmarked fund, \$600 – restricted fund, and \$33,900 – 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 ± 2 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected selected recorded journal entries, and all 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 journal entry transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Revenue Object Codes in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

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6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Department's accounting records to those in 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/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

Our findings as a result of these procedures are presented in Attorney Fee Authorization and Personal Property Inventory 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, 2007, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, prepared by the Department and submitted to the State Auditor. We inspected it to determine 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.

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and
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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, 2006, to determine if 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 and of the management of the South Carolina Department of Alcohol and Other Drug Abuse 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.

COMPENSATED ABSENCES CLOSING PACKAGE

Section 1.7 of the Comptroller General's Office GAAP Closing Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

Our review of the Department's compensated absences closing package uncovered an understatement of \$10,341. The Department inadvertently excluded earned vacation days exceeding the maximum allowable calendar year-end carry forward when calculating the compensated absences liability.

We recommend the Department implement procedures to ensure the compensated absences closing package is completed in accordance with GAAP Closing Procedures Manual instructions. In addition, we recommend the Department implement procedures to ensure timely detection and correction of errors.

ATTORNEY FEE AUTHORIZATION

Section 32.2 of the fiscal year 2007 Appropriation Act states, “No department or agency of the State Government shall engage on a fee basis any attorney at law except upon written approval of the Attorney General and upon such fee as shall be approved by him.”

While testing the Department’s compliance with fiscal year 2007 Appropriation Act Provisos, it was determined that the hourly rate paid to one law firm exceeded the hourly rate approved by the Attorney General’s Office. The Department did not detect the error when it approved and processed the law firm’s invoice for payment. The Department paid the law firm \$1,500 more than the Attorney General’s Office authorized.

We recommend the Department implement and follow procedures to ensure full compliance with Proviso 32.2. In addition, the Department should develop and implement procedures for the timely detection and correction of errors. Also, the Department should contact the law firm and request reimbursement for the overpayment.

PERSONAL PROPERTY INVENTORY

We noted that the Department did not conduct an inventory of personal property in fiscal year 2007 as required by South Carolina law. The Department did not have procedures in place to ensure that the required inventory of personal property was completed during the fiscal year.

Section 10-1-140 of the South Carolina Code of Laws states the following: "The head of each department, agency or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property under his supervision, except expendables."

We recommend the Department develop and implement procedures to ensure compliance with Section 10-1-140 of the South Carolina Code of Laws, as amended.

REVENUE OBJECT CODES

Two of twenty-five receipt transactions tested and one of eleven Appropriation/Cash transfer transactions tested were coded incorrectly. One receipt of fees from counties was coded to object code 7503 (Contributions - Hospitals and Other Providers) instead of 2602 (Fees and Receipts – Counties). The other receipt related to an other operating grant and was coded to object code 3902 (Other Reimbursements – State Agencies) instead of 7506 (Other Operating Grants – Restricted). The Appropriation/Cash transfer recorded proceeds from the sale of surplus property. The Department used object code 7862 (Confiscation Sale) instead of object code 7856 (Sale of Other Capitalized Assets) to record the transaction.

In addition, our analytical review of revenue revealed that \$61,897 was miscoded to object code 2822 (Federal Operating Grants – Restricted) in the earmarked fund. The Department should have used object code 7506.

Section 2.1.6.10 of the Comptroller General’s Statewide Accounting and Reporting (STARS) Manual defines the revenue object codes.

We recommend the Department develop and implement procedures to ensure that individuals responsible for recording accounting transactions are familiar with object code definitions. In addition the person responsible for reviewing and approving the transactions should review object codes for accuracy.

PROCUREMENT EXEMPTION

The test of non-payroll disbursements disclosed that the Department did not obtain Budget and Control Board - General Services Division approval for the procurement of a grant-specific contract that exceeded the Department's procurement certification limit.

Exemption 117 of the consolidated procurement code master list of exemptions, dated March 22, 1994 states, "In accordance with Code Section 11-35-710, exempted procurements made by a requesting agency for the purchase of grant-specified and approved major equipment, subcontracts, and consultants the agency determines to be essential to the successful completion of the grant-funded project if those procurements are made in accordance with procedures approved by the Office of General Services on an agency-by-agency basis."

We recommend the Department develop and implement procedures to ensure compliance with Budget and Control Board - General Services Division requirements for grant-specified procurements.

CASH RECEIPTS

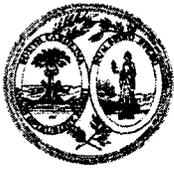
We could not determine when the Department actually received the cash transaction for eighteen of the fifty cash receipt transactions tested. The Department's accounting office uses the date that it receives the cash transaction as the receipt date. However, some receipt transactions are initially received by other divisions and then forwarded to accounting. The other divisions do not document the date of receipt.

Proviso 72.1 of the fiscal year 2007 Appropriation Act requires revenues be remitted to the State Treasurer at least once weekly, when practical. Department policy and procedures also require timely remittance of cash receipts. Timely deposits of receipts cannot be demonstrated without an accurately documented receipt date.

We recommend the Department develop and implement procedures that require all divisions to document the date of receipt at the point of receipt.

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 Department for the fiscal year ended June 30, 2006, and dated March 16, 2007. We determined that the Department has taken adequate corrective action on the finding.



**South Carolina Department of
Alcohol and Other Drug Abuse Services**

MARK SANFORD
Governor

W. LEE CATOE
Director

March 26, 2007

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

The South Carolina Department of Alcohol and Other Drug Abuse Services (DAODAS) has reviewed the draft copy of the agreed-upon procedures for the accounting records of our agency for the fiscal year ended June 30, 2007. We have taken corrective action and have revised our procedures to address the findings presented. Several of the findings had been addressed and corrected in fiscal year 2008 prior to the completion of the audit.

With this response, we authorize release of the report. We appreciate the professional attitude and conduct of your staff during the audit. If you have any questions, please contact Lillian Roberson at (803) 896-1145.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Lee Catoe".

W. Lee Catoe
Director

WLC/lr

MANAGEMENT'S RESPONSE

4 copies of this document were published at an estimated printing cost of \$1.54 each, and a total printing cost of \$6.18. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.