

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2014**

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South Carolina  
Office of the State Auditor

George L. Kennedy, III, CPA  
State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 5, 2015

The Honorable Nikki R. Haley, Governor  
and  
Ms. V. Susan Alford, 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, 2014, 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 twenty-five 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 twenty-five 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 (\$23,500 – general fund, \$1,018,500 – earmarked fund, \$10,700 – restricted fund, and \$5,949,700 – 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. We found no exceptions as a result of the procedures.

**2. Non-Payroll Disbursements and Expenditures**

- We inspected twenty-five 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 twenty-five 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 (\$595,700 – general fund, \$1,016,400 – earmarked fund, \$11,300 – restricted fund, and \$5,934,700 – federal fund) and  $\pm 10$  percent.

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

**3. Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and 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 twenty-five selected new employees and twenty-five individuals 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 current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, 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 (\$595,700 – general fund, \$1,016,400 – earmarked fund, and \$5,934,700 – 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  $\pm 10$  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 twenty-five selected recorded journal entries, five operating transfers, and four 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 and operating transfer transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Transaction Processing in the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**

*Reconciliations*

- We obtained monthly reconciliations prepared by the Department for the year ended June 30, 2014, and inspected thirty-six selected reconciliations of balances in the Department'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 Department'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 Department's accounting records.

*Cash Receipts and Revenues*

- We inspected seven 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 the same 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.

*Non-Payroll Disbursements and Expenditures*

- We inspected twenty-five 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 the same selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The transactions selected were chosen 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 Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

Our findings as a result of these procedures are presented in Publication Cost Disclosure and Accounting Services Approval in the Accountant's Comments section of this report.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, 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 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 these procedures is presented in Reporting Packages 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, 2014, 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.

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 the engagement for the fiscal year ended June 30, 2013, to determine if the Department had taken corrective action.

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

The Honorable Nikki R. Haley, Governor  
and  
Ms. V. Susan Alford, State Director  
South Carolina Department of Social Services  
November 5, 2015

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up On Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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.



George L. Kennedy, III, CPA  
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.

## **REPORTING PACKAGES**

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate, and prepared in accordance with instructions, complete, and timely." We tested the Department's fiscal year 2013-14 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. The following errors were noted during our testing of reporting packages:

### **Master Reporting Checklist – Capital Leases**

The Department's capital leases on the Master Reporting Checklist contained errors because capital lease information provided to the preparer of the checklist was incomplete. The information provided to the preparer excluded one asset with a book value of approximately \$9 million. In addition, accumulated depreciation was understated by \$1.8 million and current year amortization/depreciation was understated by the same amount.

### **Cash and Investments Reporting Package**

Our review of the reporting package disclosed that the Department did not report the reconciled balance for the bank accounts listed on the Deposits with Banks Reporting Form.

### **Accounts Payable Reporting Package**

The total Accounts Payable reported by the Department comes from several sources. We tested transactions from the various sources to determine if the amounts reported by the Department were accurate. Our tests disclosed that one subsystem report had been improperly run and overstated the accounts payable balance by approximately \$1.6 million.

Because certain payables on this reporting package are used in the calculation of grants receivables, the Grants and Contributions Revenue Reporting Package was also overstated by approximately \$1.6 million.

#### Grants and Contribution Revenue Reporting Package

In addition to the impact of the exception noted in the Accounts Payable Reporting Package comment, another payable applicable to a grant balance was excluded from this reporting package because of a miscoding in the accounting system. The exclusion of this payable resulted in an understatement of the grant receivable balance of approximately \$7,700.

#### Refund Receivables Reporting Package

The Department calculates its allowance for uncollectable receivables using a claims aging report. We noted the claims aging report included calculation errors which affected the accuracy of the allowance calculation.

#### Inventory Reporting Package

We obtained the Department's valuation report which supports the reported inventory balance on the reporting package. We were unable to reconcile the amounts on the valuation reports to the source documentation used to create the June 30 valuation report. Using the source documentation, we determined the ending inventory balance to be \$1,565,174. The Department's reporting package reported an inventory balance of \$1,590,500.

### Prepaid Expenses Reporting Package

We haphazardly selected thirty documents from the Prepaid Expenses Summary Form and noted calculation errors on four of the documents resulting in an overstatement of approximately \$1,000 in the reported prepaid expense. In addition, it was noted that one of the five Prepaid Expenses Summary Forms contained input errors that overstated reported prepaid expenses by approximately \$457,000.

### Capital Assets Reporting Package

From documentation provided by the Department, we were unable to verify the accuracy of the outstanding software development commitments reported on question 14b of the Capital Assets Questionnaire. We determined that the Department reported its current year disbursements related to their ongoing software development project as its current year commitment.

### Operating Leases Reporting Package

We haphazardly selected seventeen, of the one hundred and sixty three leases with total future minimum lease payments exceeding \$6 million, to test the accuracy of the reported future minimum lease payments. We noted calculation errors on three of the seventeen leases. The sum of the errors resulted in an understatement of reported future minimum lease payments of approximately \$2,000.

### Other Payroll Liabilities Reporting Package

The prior year agreed upon procedures report disclosed several exceptions related to annual leave balances. We haphazardly selected twenty five employees from the Department's SCEIS report of compensated absences to test the compensated absences liability. Five of the employees tested had overstated leave balances on the report because leave approvals were processed after the date of the report. The cumulative effect on the year-end compensated absences liability was an overstatement of approximately \$950.

### Interfund Payables Reporting Package

Comptroller General's Office instructions require that only interfund payable transactions greater than \$100,000 be reported on this reporting package. Interfund payable transactions that are less than \$100,000 should be reported on the Accounts Payable Reporting Package. During our review of the Interfund Payables Reporting Package, we noted that the reporting package included one interfund payable that was less than \$100,000. We also noted that the Department included an interfund payable transaction on the Accounts Payable Reporting Package that was greater than \$100,000.

### Recommendation

We recommend the Department implement procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are supported by the Department's accounting records, are independently reviewed for accuracy and completed in accordance with instructions.

### **PUBLICATION COST DISCLOSURE**

As part of our review for compliance with the 2014 Appropriation Act, we inspected a bound publication to ensure it included cost information disclosures required by Section 1-11-425 of the Code of Laws.

Section 1-11-425 of the South Carolina Code of Laws states, "All agencies using appropriated funds shall print on the last page of all bound publications the following information: (1) Total printing cost, (2) Total number of documents printed, (3) Cost per unit."

We recommend the Department implement procedures to ensure compliance with Section 1-11-425.

## **ACCOUNTING SERVICES APPROVAL**

Chapter 19, Section 445.2025 of the South Carolina Code of Regulations requires State Auditor approval prior to contracting for auditing or accounting services.

The Department procured professional accounting services during the fiscal year, but did not obtain State Auditor approval. We were told this oversight occurred because the Department did not have appropriate policies and procedures in place.

We recommend the Department develop and implement procedures to ensure that all required approvals are obtained prior to contracting for auditing or accounting services.

**SECTION B - OTHER WEAKNESS**

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

## **TRANSACTION PROCESSING**

The Department did not process all tested transactions timely and the Department could not provide adequate documentation to explain the delays.

The supporting documentation for one journal entry disclosed that the entry was prepared and reviewed by the Department in the previous fiscal year. However, due to oversight, the entry was not posted until the fiscal year 2014, several months after the document was prepared.

In addition, two transactions associated with the purchase of Department assets were paid more than thirty working days after the date of and/or receipt of the vendor invoice. The support documentation provided some evidence to indicate possible issues with the vendor invoice contributed to the delay in payment, however the documentation did not fully explain if that was the case.

Internal controls should include procedures to ensure that accounting transactions are prepared, reviewed, and recorded in a timely manner and causes of delays should be adequately documented.

We recommend the Department implement procedures to ensure that all transactions are processed in the accounting system in a timely manner or that unusual delays are supported with adequate documentation.

**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, 2013, and dated May 15, 2014. We determined the Department has taken adequate corrective action on each of the findings except we have repeated the condition in the finding titled Reporting Packages.

**MANAGEMENT'S RESPONSE**

The South Carolina Department of Social Services respectfully submits the following release for the 2014 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:**

### **REPORTING PACKAGES**

#### **Master Reporting Checklist – Capital Leases**

We concur with the finding. The information concerning this asset was forwarded to the STO on July 28, 2014; however, we failed to revise the Master Reporting Checklist. We have updated our process to include reviewing lease documents as they occur, which is as suggested in best accounting practices. This will enable us to locate and report capital leases properly.

#### **Cash and Investments Reporting Package**

We concur with the finding. The Agency has developed a procedure to insure the proper reporting of account balances in accordance with the Comptroller General guidelines.

#### **Accounts Payable Reporting Package**

We concur with this finding. The SC Child Care Voucher Prior Year Payable ("PYP") report was run with an incorrect date. This resulted in the \$1.6 million overstatement in PYP. We have added additional internal audit review steps to ensure the data pulled is PYP information for the determined period and the Team Leader will review the report and worksheets prior to Director of Financial Services reviewing the package to help ensure accuracy in reporting.

#### **Grants and Contribution Revenue Reporting Package**

We concur with this finding. This error was discovered and corrected by the agency in the following state fiscal year; however, this information was not given to the CG's Office. The agency will implement procedures to submit reporting package revisions to the CG's Office in a timely manner when prior year payables and receivables are discovered and corrected.

#### **Refund Receivables Reporting Package**

The current claims aging report is generated by the SNAP eligibility system (CHIP), which does not provide the necessary data to accurately determine the uncollectable allowance amount. The Agency was aware of the issue and has been working with the Comptroller General's CAFR auditors to change the methodology used to calculate the uncollectable allowance.

### Inventory Reporting Package

We concur with the finding. After reviewing the database that stores the received shipments, distributions, and adjustments, it was observed that several commodities were entered multiple times, which caused the inventory balance to be overstated by \$25,326. The program area is to review and confirm each commodity's shipment, distribution, and adjustment to ensure that there is a definitive balance reported.

### Prepaid Expenses Reporting Package

We concur with the finding of overstating the prepaid expense by \$457,000. This occurred due to an Excel formula error when preparing the detail. Changes have been implemented to code all Prepaid Expenses within the header text and the accounts are reviewed monthly to ensure accuracy.

### Capital Assets Reporting Package

We concur with this finding. The FY 2014 Capital Assets Reporting Package was completed using the guidelines from previous year. The Agency has corrected this error for the FY 2015 Reporting package by seeking clarification from the Comptroller General's Office.

### Operating Leases Reporting Package

We concur with the finding. The information provide to Accounts Payable for reporting was incorrect. Extra review steps have been added to our process in a) the property lease information provided by Building Services will be verified and b) the Team Leader to review the report and worksheets prior to Director of Financial Services reviewing the package.

### Other Payroll Liabilities Reporting Package

We concur with the finding. We will train employees and supervisors on the timely submission of leave requests/approvals.

### Interfund Payables Reporting Package

We concur with the finding. An extra review step has been added to our process for the Team Leader to review the report and worksheets prior to Director of Financial Services reviewing the package.

### Publication Cost Disclosure

We concur with the finding. The department has contacted SCDC Printing and will request that any future bound publications include the total cost, total number and cost per piece.

### Accounting Services Approval

We concur with the finding. For the prior contract period, the Agency requested and received approval from the State Auditor for these same accounting services. Procedures are being implemented to prevent a reoccurrence of this finding.

### **SECTION B – OTHER WEAKNESS**

#### Transaction Processing

We concur with the finding. The Department of Social Services will ensure that journal entry transactions are processed in a timely manner by reiterating to staff the importance of completing transactions within the proper time frame. Proper documentation will be provided when delays have occurred.

If you have any questions regarding our management's responses, please contact William Bray, Director of Financial Services at 803-898-7225.

4 copies of this document were published at an estimated printing cost of \$1.63 each, and a total printing cost of \$6.52. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.