

South Carolina Department of Disabilities and Special Needs

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2010

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 9, 2011

The Honorable Nikki R. Haley, Governor
and
Members of the Disabilities and Special Needs Commission
South Carolina Department of Disabilities and Special Needs
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Disabilities and Special Needs for the fiscal year ended June 30, 2010, was issued by Scott and Company, L.L.P., 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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Independent Accountants' Report on Applying Agreed-Upon Procedures

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

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Disabilities and Special Needs (the "Department") and the South Carolina Office of the State Auditor (the "State Auditor"), 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 25 recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected 10 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 November 2, 2009, the Department implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the Department.

- 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 Department's accounting records. The scope was based on agreed-upon materiality levels (\$1,500,000 – earmarked fund, \$9,000 – restricted fund, and \$8,200 – federal fund) and +/- 10 percent.

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

2. Non-Payroll Disbursements and Expenditures

- We inspected 25 recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations, and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 10 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 November 2, 2009, the Department implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Department.
- 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 Department's accounting records. The scope was based on agreed-upon materiality levels (\$690,000 – general fund, \$1,500,000 – earmarked fund, \$9,000 – restricted fund, and \$8,200 – federal fund) and +/- 10 percent.

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

3. Payroll Disbursements and Expenditures

- We inspected 25 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 Department's policies and procedures and State regulations.

- We inspected 2 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. Effective November 2, 2009, the Department implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Department.
- We inspected payroll transactions for 5 new employees and 5 individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Department'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 November 2, 2009, the Department implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Department.
- 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 Department's accounting records. The scope was based on agreed-upon materiality levels (\$690,000 – general fund, \$1,500,000 – earmarked fund, \$9,000 – restricted fund, and \$8,200 – 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 +/- 5% percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

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

- We inspected 15 recorded journal entries, 5 operating transfers, and 5 appropriation transfers to determine if these transactions were properly described and classified in the accounting records, that 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 Department'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. **Appropriation Act**

- We inspected Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general and Department specific provisos.

We found no exceptions as a result of the procedures.

6. **Closing Packages**

- We obtained copies of 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 the closing packages 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.

We found no exceptions as a result of the procedures.

7. **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 and if the amounts agreed with the supporting work papers and accounting records.

Our findings as a result of these procedures are presented in Accounting and Reporting of Federal Activity in the Accountant's Comments section of this report.

8. **SCEIS Implementation**

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

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 Accountants' Comments section of the State Auditor's Report on the Department resulting from the State Auditor's 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.

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, the governing body and management of the South Carolina Department of Disabilities and Special Needs, 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.

Scott and Company LLP

Columbia, South Carolina
June 9, 2011

ACCOUNTANTS' COMMENTS

SECTION A – OTHER WEAKNESSES

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

Accounting and Reporting of Federal Activity

We tested the Department's fiscal year 2010 schedule of federal financial assistance (SFFA) and noted the following errors:

- The Department omitted the suffix "ARRA" at the end of an ARRA-funded grant title, as required by the instructions provided by the State Auditor's Office which describe the proper completion of the SFFA in detail.

We recommend that the Department ensure that the SFFA is prepared and independently reviewed by staff that is knowledgeable of the requirements of the State Auditor's Letter of Instructions.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 2008, and dated May 19, 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 we have repeated Accounting and Reporting of Federal Activity.

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

MANAGEMENT'S RESPONSE FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION A – OTHER WEAKNESSES

Accounting and Reporting of Federal Activity

The following error was noted:

- The Department omitted the suffix “ARRA” at the end of an ARRA-funded grant title, as required by the instructions provided by the State Auditor’s Office which describe the proper completion of the SFFA in detail.

Recommendation: “We recommend that the Department ensure that the SFFA is prepared and independently reviewed by staff knowledgeable of the requirements of the State Auditor’s Letter of Instruction.”

Action taken: The Department will ensure proper review of the SFFA to provide for detection of any clerical errors and will explicitly follow the instructions promulgated by the State Auditor in regard to such. The Department emphasizes that although the aforementioned typographical error related to the title of the grant in question exists; the grant program was clearly identified as ARRA funded and all monies and transactions of the grant in question were properly accounted for and reported on the SFFA.