

**SOUTH CAROLINA
HUMAN AFFAIRS COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
REPORTING PACKAGES	6
PERSONAL PROPERTY INVENTORY	7
ALLOCATION OF RENTAL CHARGES	7
SECTION B – OTHER WEAKNESS	8
PERSONNEL FILE DOCUMENTATION	9
SECTION C – STATUS OF PRIOR FINDINGS	10
MANAGEMENT'S RESPONSE	11



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 14, 2015

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Human Affairs Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Human Affairs Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2014, in the areas addressed. The Commission'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 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 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 general, earmarked 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 (\$0 – general fund, \$5,800 – earmarked fund, and \$3,400 – federal fund) and ± 10 percent.

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 Commission 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 ten 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 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 (\$17,000 – general fund, \$8,300 – earmarked fund, and \$4,400 – federal fund) and ± 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 five selected new employees and two 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 (\$17,000 – general fund, \$8,300 – earmarked fund, and \$4,400 – 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 payroll disbursement transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Personnel File Documentation in the Accountant's Comments Section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected five selected recorded journal entries and all 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 were chosen randomly. We found no exceptions as a result of the procedures.

5. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Commission'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 Personal Property Inventory and Allocation of Rental Charges in the Accountant's Comments section of this report.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2014, prepared by the Commission 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.

7. **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 Commission 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.

8. **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 Commission resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Commission had taken corrective action.

Our findings as a result of these procedures are presented in Personal Property Inventory and Reporting Packages in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Human Affairs Commission
December 14, 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 Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in 10 percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- 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 more than two 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 governing body and management of the South Carolina Human Affairs Commission 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

The accountant's comment titled Reporting Packages in the State Auditor's Report on the Commission for the fiscal year ended June 30, 2013 reported several exceptions associated with the completion of the year end reporting packages. Although the Commission has taken adequate corrective action to address the prior year exceptions, our testing of the 2014 reporting packages identified some reporting package exceptions. The following describes the exceptions noted during our engagement:

- The amount reported as deferred revenue on the Grants and Contribution Revenues Reporting Package was overstated by approximately \$60,000 due to the Commission inadvertently excluding current year grant activity from the calculation.
- The current year increase in capital assets identified within the Capital Assets Reporting Package process was due to the inadvertent capitalization of equipment that should have been accounted for as a low value asset rather than a capital asset based on state capitalization policy.

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 recommend the Commission implement procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are accurately completed, independently reviewed for accuracy and completed in accordance with instructions.

PERSONAL PROPERTY INVENTORY

Section 10-1-140 of the South Carolina Code of Laws, as amended, states, “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.”

The prior year agreed-upon procedures engagement reported the Commission could not provide documentation supporting the performance of the inventory. Although the Commission was able to demonstrate that they are continuing to proceed with corrective action for future years, it was unable to provide documentation supporting the performance of the inventory for fiscal year 2014.

We recommend the Commission continue implementing its corrective action plan to adequately document the performance of a property inventory as required by Section 10-1-140.

ALLOCATION OF RENTAL CHARGES

The Commission paid approximately all of its office rental charges with State general funds in fiscal year 2013-2014 and it does not have a formal policy in place to document a method to allocate rental charges by funding sources.

Section 1-11-67 of the South Carolina Code of Laws, as amended, states, “All departments and agencies against which rental charges are assessed and whose operations are financed in whole or in part by federal or other non-appropriated funds are both directed to apportion the payment of these charges equitably among all funds to ensure that each bears its proportionate share.”

We recommend the Commission implement procedures to ensure compliance with Section 1-11-67 of the South Carolina Code of Laws, as amended.

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.

PERSONNEL FILE DOCUMENTATION

In accordance with its own procedures, the Commission maintains certain documentation within personnel files to support employee payments. For one of twenty-five employee paychecks selected for testing, the Commission was unable to provide supporting documentation of proper approval for one employee's change in salary. A copy of the Commission's letter documenting the approval of a position transfer and salary change was inadvertently omitted from the employee's file.

An effective set of internal controls includes controls to ensure that accounting transactions are supported by source documentation as required by Commission policies and procedures.

We recommend the Commission ensure that its personnel file documentation controls are in place and operating effectively in order to support all employee salary changes.

SECTION C - 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 Commission for the fiscal year ended June 30, 2013, and dated January 28, 2015. We have repeated Reporting Packages and Personal Property Inventory.

MANAGEMENT'S RESPONSE

Report Release Authorization & Agency's Response to State Auditor's Report June 30, 2014

In response to the preliminary drafted copy of the SC Human Affairs' Audit, we would like to submit the following responses to the Violations of State Laws, Rules or Regulations.

Reporting Packages

Grants & Contributions Reporting Package – Per an email chain between Laura Showe (CAFR) and the agency's Administrative Manager, changes were made to this package. After several email steps to be completed by Laura, the agency's Administrative Manager received an email that the package was correct. Because of no further communication, the Administrative Manager assumed that the reporting package was correct. Copy of email is available if needed.

Capital Assets Reporting Package – Agency purchased equipment as capital assets. Upon audit, agency was notified that these items should have been classified as low value assets. Agency has made note of this classification for future purchases.

Personal Property Inventory

Due to the Administrative Manager's huge roles & responsibilities, an inventory of personal property was not performed. Agency has hired a Fiscal Technician to assist Administrative Manager. Management of agency's personal property inventory is a job duty of the Fiscal Technician and will be presented for future audits.

Allocation of Rental Charges

Agency was informed that all funds (including federal funds) should be used when paying rental charges. The agency did use federal funds for rental charges such as copiers, mail machine, etc. However, the agency did not use these funds for the office rent in part due to the amount of federal funds received. The agency's other funds (state and earmarked) were substantially higher and therefore used to pay the office rent. Agency will begin using all funds (including federal funds) for future office rent payments.

Personnel File Documentation

During the 2014 fiscal year, an employee was relocated to another Division and given a 10% increase in salary. The employee was not formerly notified of the change in salary. Upon learning of this oversight, the Administrative Manager immediately wrote a letter to the Auditor and included a copy in the employee's file explaining the oversight. A formal letter was also created, given to the employee and a copy placed in the personnel file.

4 copies of this document were published at an estimated printing cost of \$1.50 each, and a total printing cost of \$6.00. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.