

**SOUTH CAROLINA STATE AGENCY
OF VOCATIONAL REHABILITATION**

WEST COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 9, 2009

The Honorable Mark Sanford, Governor
and
Board of Directors
South Carolina State Agency of Vocational Rehabilitation
West Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina State Agency of Vocational Rehabilitation (the State Agency), solely to assist you in evaluating the performance of the State Agency for the fiscal year ended June 30, 2008, in the areas addressed. The State 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 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 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 (\$10,600 – general fund, \$98,700 – earmarked fund, and \$236,500 – federal fund) and ± 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. Our findings as a result of these procedures are presented in Recording of Receipts by Fiscal Year and Object Codes 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 State 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 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 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 (\$75,800 – general fund, \$88,800 – earmarked fund, and \$239,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Codes 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.
- 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 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 (\$75,800 – general fund, \$88,800 – earmarked fund, and \$239,000 – 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 ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Payroll and Supporting Documentation in the Accountant's Comments section of this report.

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. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the State Agency 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.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the State Agency for the year ended June 30, 2008, and inspected selected reconciliations of balances in the State Agency'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 State Agency'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 State Agency'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.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the State 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 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 Closing Packages 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, 2008, prepared by the State 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.

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 State Agency's Report resulting from our engagement for the fiscal year ended June 30, 2007, to determine if Agency had taken corrective action.

Our findings as a result of these procedures are presented in Object Codes, Closing Packages, and Supporting Documentation in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Board of Directors
South Carolina State Agency of Vocational Rehabilitation
March 9, 2009

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 State Agency of Vocational Rehabilitation and is not intended to be and should not be used by anyone other than these specified parties.

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

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.

RECORDING OF RECEIPTS BY FISCAL YEAR

We tested twenty-five receipt transactions to determine if receipts were recorded in the proper fiscal year. The State Agency recorded one receipt in the wrong fiscal year. The State Agency recorded the receipt transaction in fiscal year 2009 even though the cash was received in fiscal year 2008.

State Treasurer's year end close-out procedures require that revenue be recorded in the same fiscal year that the receipt is received.

We recommend that the State Agency adhere to State Treasurer directives.

OBJECT CODES

During our test of disbursements, we noted one voucher was coded to an incorrect object code. The voucher was payment for a tooth extraction. The State Agency recorded the expenditure using object code 1107 - "Case Services – Supplies and Equipment" instead of object code 1102 – "Medical Services – Individual Professionals."

During our test of receipts, we noted two receipt documents were coded to an incorrect object code. The receipt was for the sale of cutlery packs. The State Agency recorded the receipt to object code 7803 – "Sale of Services." Since the receipt related to the sale of goods the State Agency should have used object code 7802 – "Sale of Goods" to record the transaction.

Section 2.1.6.10 and 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual define the revenue and expenditure object codes to help agencies properly classify transactions.

We recommend that the State Agency refer to the STARS manual when preparing accounting transactions of a non-routine nature.

PAYROLL

Final Pay Calculation

During our testing of employees who terminated employment during fiscal year 2008 we noted that the payroll calculation for one of the twenty-five employees tested was incorrect. The employee terminated employment on April 10, 2008. The State Agency compensated this employee through the end of the pay period (April 16, 2008). The error resulted in an overpayment of \$256.

Section 8-11-30 of the 1976 Code of Laws states that, "It shall be unlawful for anyone to receive any salary from the State or any of its departments which is not due, and it shall be unlawful for anyone in the employment of the State to issue vouchers, checks, or otherwise pay salaries or moneys that are not due to state employees of any department of the State..."

We recommend the State Agency develop and implement procedures to ensure the payments made to employees are accurate. We recommend the procedures include independent reviews of payroll calculations. Finally, we recommend the State Agency attempt to recover the overpayment.

Payment of Wages

During our test of newly hired employees we noted that one employee was not compensated for all hours worked. The employee worked 16.5 hours during the pay period ending May 1, 2008. Based on our review, the employee was not compensated for the 16.5 hours. The error resulted in an underpayment of \$197.

Section 41-10-40 of the South Carolina Code of Laws states, "Every employer in the State shall pay all wages due in lawful United States money..."

We recommend the State Agency develop and implement procedures to ensure the payments made to employees are accurate. We recommend the procedures include independent reviews of payroll calculations. Finally, we recommend the State Agency compensate the employee for the unpaid wages.

CLOSING PACKAGES

The Comptroller General's GAAP Closing Procedures Manual, Section 1.7, Summary of Agencies Responsibilities 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 State Agency's closing packages disclosed the following:

Capital Assets

We reviewed the capital assets closing package to ensure that it was properly completed and supported by the State Agency's accounting records. Based on our review we determined that the State Agency classified a current year addition as construction in progress instead of buildings and improvements. This error resulted in an overstatement for construction in progress and an understatement of buildings and improvements of \$5,040.

Compensated Absences

The compensated absences closing package contained several errors. Based on our procedures we noted the following:

- The pay rates used to calculate holiday compensatory (comp) time were incorrect for three employees. The State Agency calculated two employees' pay rate and hours earned based on a 1,950 base hour schedule instead of a 2,080 base hour schedule. The State Agency calculated six employee's comp time using the rate in effect when the leave was earned instead of the pay rate at June 30, 2008.
- The leave liability for two of the twenty-five employees tested was incorrectly calculated. Based on our review, we noted the State Agency used the real time annual leave balance column instead of year-end balance column.
- We were unable to agree the leave liability reported on the closing package to supporting documentation.

As a result the annual leave liability reported in the State Agency's compensated absences closing package was understated \$5,962.

Grant/Contribution

The State Agency did not properly calculate grant deferred revenue for certain grants on the grant analysis worksheet. The State Agency improperly allocated administration costs. The error resulted in grant deferred revenue being understated by \$10,499.

Cash and Investments

We reviewed the cash and investments closing package to ensure that the balances reported were supported by the State Agency's accounting records. Based on our review, we determined that the reconciliations for the Production Training Center Account were not effective and prepared properly. We noted significant variances between the State Agency's book balance and the adjusted bank balance. These reconciling items were not adequately explained in the reconciliation process.

Recommendation

We recommend that the State Agency implement procedures to ensure that all Closing Packages are completed in accordance with the Comptroller General's GAAP Closing Procedures Manual. Furthermore, we recommend the State Agency make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

SECTION B - OTHER WEAKNESS

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

SUPPORTING DOCUMENTATION

The State Agency could not provide adequate documentation to support the pay rate or termination date for one of twenty-five employees selected for testing. The State Agency was unable to provide documentation to support the payroll transaction because they were unable to locate the payroll/personnel records of an employee who had terminated employment.

Effective internal controls require an entity to establish policies and procedures to safeguard accounting records against theft, loss, etc.

We recommend the State Agency evaluate its current policies related to the maintenance of accounting records. Based on the results of its review the State Agency should develop and implement procedures to strengthen control over accounting records and support 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 State Agency for the fiscal year ended June 30, 2007, and dated August 14, 2008. We noted continuing deficiencies which are described in Object Codes, Closing Packages, and Supporting Documentation in Section A of the Accountant's Comments.

MANAGEMENT'S RESPONSE



South Carolina Vocational Rehabilitation Department

Enabling eligible South Carolinians with disabilities to prepare for, achieve and maintain competitive employment.

Barbara G. Hollis, Commissioner

South Carolina Vocational Rehabilitation Department (H73) July 1, 2007 - June 30, 2008 Audit Response

Recording of Receipts by Fiscal Year

We concur with the recommendation and will re-emphasize with staff the required adherence to year-end cut-off directives of the State Treasurer.

Object Codes

We concur with the recommendation. Regarding the voucher in question, we currently use over 100 detail object codes within the case services 1100 series in order to comply with federal reporting requirements. Our legacy system uses a table to convert those internal object codes to the STARS object codes. Upon review, we found this particular code was set to 1107 instead of 1102. We have developed procedures within Accounts Payable and Client Services to ensure correct mapping occurs in the short term. Additionally, we are beginning implementation of the SCEIS financial system, and expect this issue to be resolved in the long term.

Regarding the receipt that was incorrectly coded to 7802, "Sale of Goods", coding of revenue occurs at the local training center and may not be understood by the centralized accounting unit. We will address this issue through training at both levels. In addition, this will be addressed through the SCEIS implementation as business processes are defined.

Payroll

Final Pay Calculation

We concur with the recommendation. We have implemented procedures for an independent review of all payroll calculations. Additionally, we are in the process of attempting to recover the overpayment from the employee in question.

Payment of Wages

We concur with the recommendation. As mentioned above, we have implemented procedures for an independent review of all payroll calculations. However, this error was caused by lack of entry of the employee's timesheet at the local level, which could not have been detected in the Human Resources office. We will stress the importance of entering timesheets to staff in our field offices. We have also compensated the employee in question for the unpaid wages.



South Carolina Vocational Rehabilitation Department

Enabling eligible South Carolinians with disabilities to prepare for, achieve and maintain competitive employment.

Barbara G. Hollis, Commissioner

Closing Packages

Capital Assets

We concur with the recommendation. An error was made in Project 9581 classifying the expenditure as Construction in Progress, rather than Building and Improvements since the project had been completed. The finding has been noted in the file as a reminder to review completed capital projects for next year's closing package.

Compensated Absences

We concur with the recommendation. Errors were made using a 1950 base hour schedule to calculate holiday compensatory time without understanding that medical personnel have a 2080 base hour schedule. Also, an error was made using a pay rate when the leave was earned rather than the correct pay rate at year-end. A copy of the CG procedures has been placed in the file. Also, the findings have been noted and placed in the Compensated Absence file for the preparation of next year's closing package.

Grant/Contribution

We concur with the recommendation. Administrative costs had been allocated to the wrong grant year at fiscal year-end. The corrective adjustment in the SFFA (Schedule of Federal Financial Assistance) was entered as a reduction rather than an increase, resulting in the error. Backup documents to the SFFA will be independently reviewed, and the finding has been noted and placed in the Grant/Contribution files for preparation of next year's closing package. In addition, reconciliations are now prepared to ensure administrative costs are applied to the appropriate federal grant year.

Cash and Investments

We concur with the recommendation. The reconciliation issues from the Production Training Center Account will be addressed through additional attention by a designated staff member.

Supporting Documentation

Procedures within the Human Resources department have been developed to provide supporting documentation of all payroll transactions, including terminations. Staff training has occurred to emphasize tracking of all Human Resource and payroll related documentation.

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 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.