

South Carolina Vocational Rehabilitation Department

Columbia, South Carolina

Independent Accountant's Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2013

State of South Carolina



Office of the State Auditor

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July 7, 2014

The Honorable Nikki R. Haley, Governor
and
Board of Directors
South Carolina Vocational Rehabilitation Department
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 Vocational Rehabilitation Department for the fiscal year ended June 30, 2013, was issued by Scott and Company, LLC, 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 Accountant's Report on Applying Agreed-Upon Procedures

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

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Vocational Rehabilitation Department (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, 2013, 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.

Our procedures and 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 25 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 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 (\$82,000 – General Fund, \$130,000 – Earmarked Fund and \$420,000 – Federal Fund) and +/- 10 percent.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented as finding Revenue Cut-Off in the Accountant's Comments section of this report.

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, 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 25 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$82,000 – General Fund, \$130,000 – Earmarked Fund and \$420,000 – Federal Fund) and +/- 10 percent.

The individual transactions selected were chosen haphazardly. 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 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 payroll transactions for 13 new employees and 12 employees 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 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 Department's accounting records. The scope was based on agreed upon materiality levels (\$82,000 – General Fund, \$130,000 – Earmarked Fund and \$420,000 – 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 +/- 10 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

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

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected 25 journal entries, 7 operating transfers, and 16 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 Department's policies and procedures and State regulations.

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

5. Composite Reservoir Accounts

Reconciliations

- We obtained the all monthly reconciliations prepared by the Department for the year ended June 30, 2013 and selected the year-end reconciliation and one other prepared by the Department. We inspected the 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 5 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 5 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 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, and 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 the same selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The selections were chosen haphazardly. We found no exceptions as a result of the procedures.

6. 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.

7. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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.

We haphazardly selected samples from the Department's reporting packages based on the number of items in the detail to the individual reporting package.

We found no exceptions as a result of the procedures.

Mr. Richard H. Gilbert, Jr., Deputy State Auditor
South Carolina Office of the State Auditor
June 30, 2014

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 Department resulting from our engagement for the fiscal year ended June 30, 2012, to determine if the Department 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, Members of the Department's governing body and its management, 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 LLC

Columbia, South Carolina
June 30, 2014

ACCOUNTANT'S COMMENTS

SECTION A – OTHER WEAKNESS

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 Department require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

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.

Finding 2013-01

Revenue Cut-Off:

Condition:

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. One of the twenty-five transactions was recorded in the incorrect fiscal year. This transaction was for revenue earned in June 2012 (FY12), however, they were improperly recorded in July 2012 (FY13).

Cause:

In the sample of twenty-five recorded receipts, one transaction was to record revenue for the sale of products outsourced to the Department. The policies of the Department did not allow for the billing and invoicing documents to be matched to the fiscal year the products were actually shipped to the customer.

Effect:

Revenues were incorrectly classified within each fiscal year as noted above. This resulted in the incorrect amount of revenues being classified in the accounting records with less revenue being recorded in FY12 and excess revenue being recorded in FY13. Additionally, as the revenue was earned in FY12, there should have been additional accounts receivable recorded in the FY12 reporting packages.

Criteria:

An effective internal control system includes procedures designed to properly record revenues in the correct fiscal year as well as recording the related accounts receivable.

Recommendation:

We recommend the Department improve procedures to ensure that revenues are recorded in the correct fiscal year. The Department should compile a listing of all revenues occurring after year end for the above described type of services and record a journal entry to record them in the correct fiscal year. This will ensure accurate financial reporting as well as allowing the Department to properly report those items on the reporting packages.

SECTION B – 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 Independent Accountant's Report on the Department for the fiscal year ended June 30, 2012, and dated June 28, 2013. In response to our inquiries, we were told that the Department has developed and implemented procedures to correct the weakness reported in the prior year. We determined that the Department has taken adequate corrective action on the finding. However, because the procedures were implemented after June 30, 2013, we did not perform tests of the new procedures.



South Carolina Vocational Rehabilitation Department

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

Barbara G. Hollis, Commissioner

June 30, 2014

Scott and Company, LLC
Post Office Box 8388
Columbia, South Carolina 29202

Please accept the following as our response to the 2013 Agreed Upon Procedures audit finding.

Finding 2013-1

Revenue Cut-Off:

We agree with the finding of the auditors engaged for this Agreed Upon Procedures Audit. During the audit process, it was determined that revenue totaling \$331.78 was earned on June 29, 2012 (FY12), which was the delivery date. The invoice date, July 3, 2013 (FY13) was when the revenue was recorded. We have identified the processes that led to the finding and have taken corrective actions to prevent future findings in this area, including compiling a list of revenues occurring after year end and recording a journal entry to classify them in the correct fiscal year. We will continue reviewing the process throughout the year to ensure appropriate controls are in place to capture revenues in the correct fiscal year.

Sincerely,

Richard G. Elam
Assistant Commissioner, Administration

cc: Barbara G. Hollis, Commissioner