

**SOUTH CAROLINA STATE AGENCY
OF VOCATIONAL REHABILITATION**

WEST COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2015

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 21, 2016

The Honorable Nikki R. Haley, 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, 2015, 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 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 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 (\$13,300 – general fund, \$152,100 – earmarked fund, and \$498,300 – 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 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 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 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 (\$91,500 – general fund, \$159,600 – earmarked fund, and \$497,700 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 twenty-five selected new employees and twenty-three 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 (\$91,500 – general fund, \$159,600 – earmarked fund, and \$497,700 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 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, one operating transfer, and one appropriation transfer 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 tested all transfers. We found no exceptions as a result of the procedures.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the State Agency for the year ended June 30, 2015, and inspected two selected reconciliations of balances in the State Agency'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 State Agency'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 State Agency's accounting records.

Cash Receipts and Revenues

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

The individual 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 State Agency's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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, 2015, 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 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, 2015, 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.

9. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the State Agency resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the State Agency had taken corrective action.

We found no exceptions as a result of the procedures.

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 State Agency 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 ten 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 ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three 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 three business days late.

The Honorable Nikki R. Haley, Governor
and
Board of Directors
South Carolina State Agency of Vocational Rehabilitation
June 21, 2016

We were not engaged to and did not conduct an examination, 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.



George L. Kennedy, III, CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

REPORTING PACKAGES

Condition:

Our testing of the State Agency's fiscal year ended June 30, 2015 reporting packages resulted in the following exceptions:

1. Accounts Payable transactions totaling approximately \$2,200 were inadvertently excluded from reporting on the Accounts Payable Reporting Package and the Subsequent Events Questionnaire.
2. Adjustments of approximately \$1,200 to the State Agency's liability for compensated absences were inadvertently excluded from reporting on the Other Payroll Liabilities Reporting Package and the Subsequent Events Questionnaire.
3. Our testing of the Capital Assets Reporting Package identified an acquisition capitalized as Intangible Assets – Non-depreciable which did not meet the minimum dollar value threshold for capitalization.

Cause:

1. Based on our review, reports which were run to accumulate accounts payable for reporting excluded certain dates which led to the inadvertent omission of some accounts payable transactions when completing the reporting packages.
2. Leave submissions from employees subsequent to the date of the leave liability report were not identified and reported with the Subsequent Events Questionnaire.
3. Interpretation of reporting package instructions led to the capitalization of an item which didn't meet the minimum dollar threshold to capitalize.

Effect:

1. Accounts payable was understated by approximately \$2,200 as a result of the omission.
2. The liability for compensated absences was understated by approximately \$1,200.
3. Non-depreciable assets on the asset history report and submitted through the reporting process were overstated by approximately \$18,000.

Criteria:

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."

Recommendation:

We recommend the State Agency implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Policies and Procedures Manual and form instructions.

Management's Response:

We agree with the recommendation, and have taken the following steps to ensure all reporting packages are completed in accordance with all applicable policies, procedures and instructions of the Comptroller General's Office.

1. We agree with the finding and understand it was a timing difference in the reports pulled for the Subsequent Events. In the future we will pull our reports backtracking to our original dates to appropriately capture all accounts payables transactions.
2. We will work with our Human Resources department to ensure all leave submissions from employees subsequent to the date of the leave liability report are identified and reported with the Subsequent Events Questionnaire. This will include going through the process of preparing the original report to capture all adjustments that were made since submission of the original package.
3. We will improve review process to ensure non-depreciable assets submitted through the reporting process are not overstated. A SCEIS SRM issue prevented use of asset class 29901 for software \$5,000 or greater but less than \$100,000. We will now include a review of non-depreciable purchases made to ensure the correct asset class has been assigned. Non-depreciable assets referred to in the comment have been appropriately re-classified.

SECTION B - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the State Agency for the fiscal year ended June 30, 2014, and dated July 21, 2015. We determined that the State Agency has taken corrective action on the finding.

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