

**SOUTH CAROLINA STATE AGENCY
OF VOCATIONAL REHABILITATION
WEST COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 18, 2018

Board of Directors
South Carolina State Agency of Vocational Rehabilitation
West Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina State Agency of Vocational Rehabilitation (the State Agency), solely to assist you in evaluating the systems, processes and behaviors of the State Agency for the fiscal year ended June 30, 2017. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the State Agency. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

Board of Directors
South Carolina State Agency of Vocational Rehabilitation
January 18, 2018

This report is intended solely for the information and use of the governing body and management 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. However, this report is a matter of public record and its distribution is not limited.



George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed - Upon Procedures - South Carolina State Agency of Vocational Rehabilitation (H73)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$20,600 – General Funds, \$134,900 – Earmarked Funds, \$587,300 – Federal Funds and 10 percent.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$100,500 – General Funds, \$147,100 – Earmarked Funds, \$557,600 – Federal Funds and 10 percent.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by the State Agency procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by the State Agency procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the State Agency, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / verify proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures selected we will inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$100,500 – General Funds, \$147,100 – Earmarked Funds, \$557,600 – Federal Funds and 10 percent.

8. Randomly select twenty-five employee payments and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the State Agency.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the State Agency.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Randomly select five bonus pay disbursements to determine:

- Employee does not make more than \$100,000 annually.
- Bonuses received during the year did not exceed \$3,000.
- Transaction was appropriately documented and approved.

10. Randomly select twenty-five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the State Agency's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

11. Randomly select twenty-five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the State Agency's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

12. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes of +/- 10 percent.

13. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10 percent.

We found no exceptions as a result of the procedures.

Journal Entries

14. Randomly select twenty-five journal entries for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
- Confirm transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

15. Inspect the Appropriation Act work program, provided to and completed by management, noting areas of noncompliance, if any.
16. Confirm compliance with the State Agency-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedures.

Reporting Packages

17. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect reporting packages to:
 - Determine if preparation was in accordance with Comptroller General Office requirements.
 - Determine if amounts reported in the reporting packages agree with the supporting workpapers and accounting records.

Finding

Approximately \$425,000 of contract retention payable was misclassified as vendor payables on the Accounts Payable Reporting Package Summary Form. In addition, the payable balance was understated by approximately \$1,600 due to the inadvertent omission of interfund payables required by Comptroller General's Office instructions to be reported as an account payable.

Management's Response

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

Composite Reservoir Accounts

18. Obtain from the South Carolina Office of the State Auditor (OSA) a listing of the State Agency composite reservoir accounts and confirm with the State Agency management that the listing is complete.
19. Obtain fiscal year monthly reconciliations for each composite reservoir account and for two judgmentally selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
20. Randomly select and inspect thirteen revolving fund and twelve client stipend composite reservoir account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the State Agency's policies and procedures and State regulations, were bona fide disbursements of the State Agency, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Minutes

21. We will inspect the State Agency's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our procedures.

Internal Audit Reports

22. We will inspect the State Agency's internal audit reports beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no exceptions as a result of the procedures.

Federal Reports

23. Inspect the State Agency's 2017 RSA-2 annual report, and the State Agency's final SF-425 report for the 2016 Basic Support grant. The inspection will be performed to determine if the reports were complete and accurate and if reported amounts trace to applicable State Agency accounting records.

We found no exceptions as a result of the procedures.

Cost Allocation

24. Inspect the State Agency's allocation of indirect cost for the quarter ended June 30, 2017 to determine if the allocation was performed in accordance with the State Agency's federally approved cost allocation plan.

Finding

The process of recording the annual statewide portion of indirect cost, in and with this quarter's allocation, resulted in a discrepancy of approximately \$400,000 in indirect cost allocated between the two primary grant programs of the State Agency.

Management's Response

We agree with the recommendation, and have taken steps to ensure the cost allocation is recorded in our financial system in accordance with all applicable policies, procedures and instructions set forth in the federally approved cost allocation plan. The discrepancy has been corrected to ensure proper allocation.