

**SOUTH CAROLINA
DEPARTMENT OF ALCOHOL
AND OTHER DRUG ABUSE SERVICES**

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

December 7, 2016

The Honorable Nikki R. Haley, Governor
and
Ms. Sara Goldsby, Acting Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Alcohol and Other Drug Abuse Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2015, 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.

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 six 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 (\$0 – general fund, \$22,100 – earmarked fund, and \$173,700 – federal fund) and \pm 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 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 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, restricted 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 (\$60,000 – general fund, \$27,300 – earmarked fund, \$2,400 – restricted fund, and \$171,700 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Subrecipient Overpayment in the Accountant's Comments section of this report.

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 five 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, restricted 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 (\$60,000 – general fund, \$27,300 – earmarked fund, \$2,400 – restricted fund, and \$171,700 – 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 and Transfers**

- We inspected fourteen selected recorded journal entries and five 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. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

Our finding as a result of these procedures is presented in Publication Cost Disclosure 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, 2015, 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.

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, 2015, prepared by the Department 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 Department resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the Department had taken corrective action.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

The Honorable Nikki R. Haley, Governor
and
Ms. Sara Goldsby, Acting Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
December 7, 2016

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 Department 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.

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 management of the South Carolina Department of Alcohol and Other Drug Abuse Services 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

Condition:

Corrective action of the Department addressed some of the conditions regarding grant receivable and accounts payable balances reported in the prior year State Auditor's report, however the following conditions were identified in our testing of the Department's fiscal year ended June 30, 2015 reporting packages.

1. Reported grants receivable balances were not adjusted to reflect the impact of applicable accounts payable.
2. Some vendor payables were misclassified as intergovernmental payables on the Accounts Payable Reporting Package, and reported payables were overstated.

Cause:

1. The impact of applicable accounts payable amounts were inadvertently excluded when grants receivables were calculated and reported.
2. The Department reported a payable with the Subsequent Events Questionnaire which had already been reported on the Accounts Payable Reporting Package, and payables which consisted of vendor and intergovernmental, were all reported as intergovernmental.

Effect:

1. Grants receivable was understated by approximately \$234,000 as a result of omission of accounts payable from the calculation.
2. Intergovernmental Payables were overstated by \$35,000 as a result of the same transaction being reported on the Accounts Payable and Subsequent Events Reporting Packages, and approximately \$35,000 of vendor payables were reported as intergovernmental payables.

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 Department implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures manual and reporting package form instructions.

Management's Response:

We accept the accountant's comments. The Finance Section consulted with the Comptroller General – CAFR staff on the correction methodology. The corrections have been implemented as instructed.

PUBLICATION COST DISCLOSURE

Condition:

Cost disclosures were missing from a bound publication printed by the Department, noted during our testing of compliance with certain laws and regulations.

Cause:

Based on our testing, an isolated oversight occurred in evaluating applicability of the cost disclosures on the printing of one of the bound publications we reviewed.

Effect:

The Department was not in compliance with Section 1-11-425 of the South Carolina Code of Laws.

Criteria:

Section 1-11-425 of the South Carolina Code of Laws states, "All agencies using appropriated funds shall print on the last page of all bound publications the following information: (1) total printing cost; (2) total number of documents printed; and (3) cost per unit."

Recommendation:

We recommend the Department implement procedures to ensure compliance with Section 1-11-425.

Management's Response:

We accept the accountant's comments. The agency's public information officer has reviewed the cost disclosure publication requirements. It is our business practice to include the requirement information; however, the bound publication selected was developed and printed by an outside organization. It was an oversight on our behalf. All future bound publications, whether developed in-house or outsourced, will include the cost disclosure information.

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.

SUBRECIPIENT OVERPAYMENT

Condition:

A clerical error was noted on one of twenty-five non-payroll disbursements randomly selected for testing, resulting in an overpayment to one of the Department's subrecipients.

Cause:

The Department's review and approval of the transaction failed to detect and correct the clerical error prior to processing the transaction for payment.

Effect:

The Department overpaid the subrecipient by approximately \$125.

Criteria:

Effective internal controls over disbursement transactions require safeguards to ensure proper payment.

Recommendation:

We recommend the Department strengthen internal controls to ensure detection and correction of clerical errors. The Department should ensure that review and approval of disbursement transactions ensure accuracy and proper payment.

Management's Response:

We accept the accountant's comments. Corrective action has been taken to accommodate for the overpayment. The subrecipient was asked to reduce its payment request by the overpaid amount. The Department has reviewed its grant payment procedures to avoid future clerical errors.

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 Department for the fiscal year ended June 30, 2014, and dated December 17, 2015. We determined that the Department has taken adequate corrective action on each of the findings, except we have repeated Reporting Packages.

2 copies of this document were published at an estimated printing cost of \$1.44 each, and a total printing cost of \$2.88. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.