INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES
COLUMBIA, SOUTH CAROLINA

June 30, 2016

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

December 8, 2017

V. Susan Alford, State Director
South Carolina Department of Social Services
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Social Services for the fiscal year ended June 30, 2016, was issued by The Hobbs Group, PA, 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,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

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June 30, 2016

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

December 8, 2017

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the South Carolina Office of the State Auditor and management of the South Carolina Department of Social Services (the "*Agency*"), solely to assist you in evaluating the systems, processes and behaviors of the Agency for the fiscal year ended June 30, 2016. 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 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 Agency has agreed that the following deficiencies will not be included in the Independent Accountants' 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.

This report is intended solely for the information and use of the Governor, management of the South Carolina Department of Social Services, 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. However, this report is a matter of public record and its distribution is not limited.

The Hobbs Group, P.A.

The Hobbs Group, P.A.
Columbia, South Carolina

Agreed-Upon Procedures Related to South Carolina Department of Social Services
For the Year Ended June 30, 2016

Cash Receipts/Revenues

1. We compared current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. We obtained and documented an understanding of variations over $5,300 – general fund, $746,000 – earmarked fund, $3,500 – restricted fund, and $7,400,000 – federal fund and ±10 percent.

2. We randomly selected 55 cash receipts transactions and inspected 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.
   - Ensure that both revenue collections and amounts charged are properly authorized by law.

3. We randomly selected 25 cash receipts and inspected supporting documentation to determine that receipts were recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-payroll Expenditures

4. We compared current year non-payroll expenditures at the subfund and account level to those of the prior year. We obtained and documented an understanding of variations over $627,000 – general fund, $797,000 – earmarked fund, $3,600 – restricted fund, and $7,389,000 – federal fund and ±10 percent.

5. We randomly selected 60 non-payroll disbursements and inspected supporting documentation to determine:
   - Transaction is properly completed as required by agency procedures; invoices agree with general ledger as to vendor, amount, number, and date.
   - All supporting documents and approvals required by agency procedures and good business practice are present and agree with the invoice.
   - The transaction is a bona fide expenditure of the agency, properly coded to the general ledger.
   - Disbursement complied with all 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 we inspected supporting documentation to determine that 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. We randomly selected 25 non-payroll disbursements and inspected supporting documentation to determine that disbursements were recorded in the proper fiscal year.

Our finding as a result of the procedures are presented in Accumatica Transactions in the Findings section of the report.

Payroll

7. We compared current year payroll expenditures at the subfund and account level to those of the prior year. We obtained an understanding of variations over $627,000 – general fund, $797,000 – earmarked fund, $3,600 – restricted fund, and $7,389,000 – federal fund and ±10 percent.
8. We randomly selected 25 employees and inspected supporting documentation during the fiscal year to:
   For Salaried Employees:
   - We obtained and scanned 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 agency.
   - We agreed gross pay to supporting documentation noting all changes to gross salary for the year. We determined that all changes have been properly approved.

   For Hourly Employees:
   - We obtained and scanned 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 agency.
   - We confirmed the hourly rate and time sheets are properly approved; recalculate gross pay.

9. We systematically selected 25 bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations to determine:
   - Employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015
   - Employee does not make more than $100,000 annually
   - Bonus pay was split between funds according to the ratio of the employee's base salary

10. We randomly selected 25 employees hired during the fiscal year to determine if they were added to the payroll in accordance with the agency's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

11. We randomly selected 25 employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the 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. We compared the percentage change in personal service expenditures to the percentage change in employer contributions. We obtained an explanation of changes of ±10 percent.

13. We computed the percentage distribution of fringe benefit expenditures by fund source and compared it to the actual distribution of recorded personal service expenditures by fund source. We investigated differences of ±10 percent to ensure that personal service expenditures were classified properly in the agency's accounting records.

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

Journal Entries and Transfers

14. We randomly selected 30 non-recurring journal entries and 25 transfers for the fiscal year and:
    - Traced postings to the general ledger, confirming amounts agree with supporting documentation.
    - Confirmed transaction is properly approved.
    - Inspected supporting documentation to confirm the purpose of the transaction.

Our findings as a result of the procedures are presented in Accumatica Transactions and Transfers in the Findings section of the report.

Appropriation Act

15. We completed the Appropriation Act work program provided to management noting areas of noncompliance, if any.

16. We obtained agency-specific state provisos and inspected for compliance through inquiry and observation.

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

Reporting Packages

17. We obtained copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General. We inspected the reporting packages to:
    - Determine if preparation was in accordance with Comptroller General Office requirements (http://www.cg.sc.gov/guidanceandformsforstateagencies)
    - Determine if amounts reported in the reporting packages agree with the supporting workpapers and accounting records

The following reporting packages were inspected:

Master Reporting Checklist
Cash and Investments
Grants and Contributions
Disallowances and Penalties
Inventory
Prepaid Expenses
Capital Assets
Operating Leases
Accounts Payable
Other Payroll Liabilities
Interfund Payables
Litigation
Subsequent Events
Fund Balance
Miscellaneous Loss
Other Receivables

Our findings as a result of the procedures are presented in Reporting Packages in the Findings section of the report.

Composite Reservoir Accounts

18. We obtained from the SC Office of the State Auditor (OSA) a listing of agency composite reservoir accounts and confirmed with agency management that the listing is complete.

19. We obtained fiscal year monthly reconciliations for each composite reservoir account and for 6 of the reconciliations, we performed the following procedures:
    - Determined the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct
    - Agreed applicable amounts from reconciliations to the general ledger
    - Agreed applicable amounts from reconciliations to the State Treasurer's Office monthly reports
    - Determined if reconciling differences were adequately explained and properly resolved
    - Determined if necessary adjusting entries were made in the accounting records
    - Obtained a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determined mathematical accuracy
    - Agreed the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger

20. We randomly inspected 33 composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations and that they were recorded in the proper fiscal year.

21. We determined revenue collection and retention or remittance is supported by law.

22. We randomly inspected 33 composite reservoir account 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 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.

Our finding as a result of the procedures are presented in Composite Reservoir Account Reconciliations in the Findings section of the report.

Status of Prior Findings

23. We inquired about the status of findings reported in the Accountant's Comments section of the engagement for the prior fiscal year to determine if the agency has taken appropriate corrective action.

Our findings as a result of these procedures are presented in Reporting Packages and Accounting Services Approval in the Findings section of the report.

Internal Audit Reports

24. We randomly selected 14 of the Agency's internal audit reports to inspect 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 performed.

Additional Procedures

25. We tested additional areas of risk determined by the agency as follows:
    - We inspected the calculation and analyzed the methodology of the allowance for uncollectible accounts receivable balances to assess whether or not the uncollectible percentage is adequate based on the type of receivables.

Our findings as a result of these procedures are presented in Allowance for Doubtful Accounts in the Findings section of the report.

FINDINGS

ACCUMATICA TRANSACTIONS

We found deficiencies in the system of internal control over the cash accounts in Accumatica. We haphazardly selected ten disbursements out of Accumatica from various DSS counties across the State. We found that two of ten checks were not properly voided in the system and a copy of the check could not be provided. The checks that should have been voided were for $1,009,953 and $75,580. These were created in error due to miskeying information. Three out of ten Accumatica disbursements lacked substantial supporting documentation to corrorborate the check amount.

In our inspection of journal entries, fourteen of the journal entries selected were from Accumatica. Our inspection revealed that these journal entries were for recording deposits. While we were able to confirm support on these journal entries, we determined that these entries should be recorded as deposits, rather than a journal entry. Additionally, we did not find approval on these entries.

We recommend that management implement a uniform set of procedures that is to be followed by each County in order to bring consistency to the system of internal control at the County level. We recommend the internal control system include policies over check writing, deposits, journal entry transactions, and reconciliations of bank accounts to ensure that bank accounts are being monitored properly, and so that Accumatica provides useful and accurate information in a timely manner.

TRANSFERS

In our inspection of transfers, we found six transfers did not have approval in SCEIS. Three of the transfers did not have attachments provided in SCEIS or a description of the transfer.

REPORTING PACKAGES

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." We inspected the Agency's fiscal year 2015-16 reporting packages to determine if the reporting packages were complete, accurate, submitted timely, and prepared in accordance with instructions. We found the following:

Cash and Investments Reporting Package

> For one bank account, the balance recorded and reconciled was inaccurately reported on the Deposits with Banks Reporting Form. The amounts were stated at zero, when the recorded balance should have been $2,057,614 and the reconciled balance should be $2,081,568.
>
> For another bank account, the balance recorded, reconciled and bank statement balance were inaccurately reported on the Deposits with Banks Reporting Form. The amounts were stated at $58,195 for all three balances when they should have been stated at $51,795, $51,795, and $51,830, respectively.
>
> For the 46 County DSS bank accounts which are shown in aggregate on the Deposits with Banks Reporting Form, the total reconciled balance was stated at $7,308,115, which did not agree to

the detail provided from Accumatica of $7,391,033. Additionally, the reconciliation report that summarizes all bank accounts from the 46 counties had various dates in June. The balances should be reported as of June 30 for all bank accounts.

Lastly, no bank reconciliations were provided for another bank account which is shown in aggregate on the Deposits with Banks Reporting Form.

Inventory Reporting Package

While the amount reported in the reporting package does agree to the commodity valuation report provided by management, this report shows beginning balances that are negative. The negative balances are due to issues with the inventory database. The database houses data entered from four food banks on a monthly basis. DSS is in the process of bringing a resolve to the issue.

Prepaid Expenses Reporting Package

We found a continued finding from the prior year during our inspection of the supporting documentation. We found 24 items that were mistakenly excluded from the prepaid reporting package. This resulted in the reporting package being understated by $141,010.

Accounts Payable Reporting Package

We haphazardly selected 25 transactions that were reported as payables. We found one disbursement included in the reporting package as a payable that was for services rendered in fiscal year 2016-2017.

Through inquiry, we also noted that transactions in the CHIP subsystem for SNAP and TANF are not being included in accounts payable reporting package. The amount that the reporting package was understated by could not be determined.

Other Payroll Liabilities Reporting Package

We haphazardly selected twenty five employees from the Agency's SCEIS report of compensated absences to confirm the compensated absences liability. Three employees had overstated leave balances on the report because leave approvals were processed after the date of the report. The cumulative effect on the year-end compensated absences liability was an overstatement of $255. This is a continued finding from the prior year.

Recommendation

We recommend the Agency implement procedures to ensure compliance with the guidelines set by the Comptroller General to ensure all reporting packages are supported by the Agency's accounting records, are independently reviewed for accuracy and completed in accordance with instructions.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATION

The bank reconciliation for one account did not include the activity for the month and the reconciliation did not agree to the State Treasurer's Office report.

An effective system of internal control should include procedures to detect and timely correct errors. We recommend the Agency develop and implement monthly reconciliation review procedures for all composite reservoir accounts and ensure proper documentation of the reconciliations.

ACCOUNTING SERVICES APPROVAL

Section 11-35-1250 of the South Carolina Code of Laws requires State Auditor approval prior to contracting for auditing or accounting services.

The Agency procured professional accounting services during a previous fiscal year, but did not obtain State Auditor approval. The contract term is for a period of 5 years and retroactive approval of these accounting services was not given. Therefore, we continue this finding into the current year. We recommend the Agency develop and implement procedures to ensure that all required approvals are obtained prior to contracting for auditing and accounting services.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

During our inspection of the calculation of the allowance for uncollectible accounts receivable balances we found an error in the calculation of the allowance for SNAP receivables which resulted in an overstated allowance of $184,672. This was due to a keying error when inputting calculations from CHIP subsystem into the aging spreadsheet.

During our inspection of the allowance account, we found there have been no write offs of any accounts. There was $3,493,817 worth of receivables in SCEIS that is not supported in the CHIP subsystem for SNAP and $2,950,252 worth of receivables in SCEIS that is not supported in the CHIP system for TANF. This is because the system does not go back more than 10 years. However, this limits the ability to reconcile accounts receivable balances per CHIP to SCEIS. These amounts are determined by management to be claims outstanding from over 10 years ago, but this cannot be supported with documentation. This amount is deemed 100% uncollectible and is included in the allowance.

During our assessment of whether or not the uncollectible percentage is adequate based on the type of receivables, we found that the allowance methodology used for child support overpayment receivables is not supported with any rationalization besides the expectation that not much will be collected. An allowance percentage of 80% is used. Child support overpayment receivables represent less than 1% of the total accounts receivable balance.

We recommend that someone other than the person preparing the allowance calculation review the calculation for accuracy. We also recommend that management review the differences between CHIP and SCEIS to determine if any write offs are necessary.

MANAGEMENT’S RESPONSE

December 8, 2017

Christina Kelly, CPA
The Hobbs Group, P.A.
1704 Laurel Street
Columbia, SC 29201

Dear Christina,

The South Carolina Department of Social Services respectfully submits the following management responses for the 2016 state fiscal year Agreed Upon Procedures (AUP) report.

Management's Response to Findings

1. Acumatica Transactions

   Management agrees with this finding. The CFO and Controller have already met with the Internal Audit staff to begin discussions of the system. Management has also located a document titled 'County and Regional Office Accounting Guidelines', however, this document has not been updated since 1998, and was not updated with the implementation of Acumatica.

   An on-site meeting has taken place with Finance staff, Internal Audit staff, and the team from Acumatica to gain a better understanding of the system and its capabilities for implementing stricter controls. We will begin to update the accounting guidelines and implement any new policies that are needed to strengthen controls in the system.

   Management is also working to identify all expenditure types currently being handled through Acumatica, to determine whether those expenditures should be handled centrally through SCEIS. This will allow the agency to better-leverage state contract pricing, consistently analyze agency expenditure data, and mitigate risks associated with the counties' extensive use of Acumatica.

2. Transfers

   Management does not agree with the finding regarding SCEIS approval. The transfers referenced in this finding are budget transfers. The documents that are noted as not having approval were processed by 'Budget Leads'. This role is set up by SCEIS and does not require workflow approval through SCEIS.

The three transfers noted that did not have backup documentation attached, 1000342235, 1000343788 and 1000344778, now have the proper documentation attached. The importance of attaching documentation has also been communicated to all budget staff.

3. Reporting Packages
   a. Cash and Investments

      The account discussed in the first paragraph is the SSA Trust Account. We agree with this finding, with some modification and elaboration. The account receives deposits of DSS client Social Security benefit payments, which DSS holds in safekeeping until they are needed. All initial deposits and all withdrawals are made through this checking account, which is imprest at $0. Excess funds are swept into the State's Composite Reservoir Account maintained by the State Treasurer's Office (STO) daily. Both the checking account and the balance held in the Composite Reservoir Account should be reported as one account, and we agree the balances were incorrectly reported at zero. We further agree that the *Recorded Balance* should have been $2,057,614. However, we also feel that $2,057,614 was the correct *Reconciled Balance*, and that, the balance *Per Bank Statement* should have been reported at $2,081,568, instead of zero.

      It should be noted that since this account is used to hold DSS client funds received from the Social Security Administration, DSS does not own the funds; it holds them as a custodian. Further, through its Foster Care program administration and its various county offices, DSS holds other funds owned by clients while they are in DSS custody. We have consulted with the Comptroller General's Office concerning the nature of these accounts, and we have jointly concluded that, in addition to including these balances in its Cash and Investments Reporting Package, DSS should report a liability equal to the total of such funds under its control and custody at yearend. Had we implemented this reporting policy as of June 30, 2016, we would have reported a liability for funds held in trust of $2,385,036.

      We agree that the balances reported for the Senior's Farmers Market should have been reported as indicated in the second paragraph under the 'Cash and Investments Reporting Package' finding in the report. Staff incorrectly pulled the beginning balances as of June 30 instead of the ending balances. Management has discussed with staff the correct source and method for determining these balances, and management will monitor future reporting to ensure we report them correctly.

      For the bank accounts managed by our 46 counties, we agree that the correct *Recorded Balance* was $7,391,033 as of June 30, 2016, and this is the balance that we reported in our final Cash and Investments Reporting Package, which we amended on October 13, 2016. We amended it because the package was due before all 46 counties were able to complete their reconciliations, and once they were completed we felt we should report the final corrected amounts. This amended reporting package should have been included in the files we made available for testing. In the future, we will ensure that whenever we amend a closing package we provide a copy of the revised package to the examining firm's representative.

With respect to the varying dates reported on the final reconciliation report, your finding refers to the 'last reconciliation date' displayed in that report for each account. These are the dates through which the reconcilers last directed the system to retrieve transactions posted in the general ledger for comparison to transactions clearing the bank statement during the reconciliation process. Approximately one third of the reconciliations as of June 30 were completed using July 'last reconciliation dates', meaning the GL transactions were retrieved though a date after year-end for comparison to the bank statement as of year-end.

This practice was also prevalent in May and prior months, so that a review of the report as of June would show various dates prior to June 30. This makes confirmation of the completion of month-end and year-end reconciliations more difficult and adds unneeded complexity to the process. Financial Services staff have previously asked County personnel to use the month-end dates instead of subsequent dates when completing reconciliations. Management will reiterate this expectation to county directors, monitor their compliance, and communicate with county and regional directors as exceptions are identified.

The last concern documented in this finding is that no bank reconciliations were provided for one of several accounts reported in the aggregate. The account in question was a Foster Care client bank account. These accounts are established and maintained by program staff to hold funds that belong to foster care children while they are in the program. Generally, no transactions occur between the initial deposit of funds for a new client and the date the funds are withdrawn upon their exit from the program. However, we concur that these accounts should be reconciled monthly. We will arrange for the bank statements for these accounts to be delivered to Financial Services, and we will assign appropriate personnel to complete and approve the reconciliations each month.

b. Inventory

The negative beginning balances are due to issues with the TEFAP inventory database. This database houses data entered from our food banks on a monthly basis. This issue has been resolved and no longer exists in FY17.

c. Prepaid Expenses

Staff has been informed of the error and changes have been made to how information is entered into SCEIS to ensure the proper amount is recorded as prepaid.

d. Accounts Payable

Management has communicated to staff the importance of reviewing dates of service and/or receipt of goods, and coding invoices to the proper period.

Management does not agree with the finding related to the transactions in the CHIP system. TANF and SNAP payments are paid at the beginning of each month for that month, thus would not be considered a liability at year end.

e. Other Payroll Liabilities

While management agrees that the most up to date information should be used, the compensated absence report is sent to each agency by the Comptroller General's office each year. Agencies are not able to generate this report and must rely on the report sent by the CG.

4. Composite Reservoir Account Reconciliation

Management agrees that, although the beginning and ending balance in the month of May 2016 (and not the year-end statement) for this account was zero, there was one transaction during the month which should have been recorded on the monthly bank account reconciliation. Management will ensure that proper reconciliations and reviews are completed monthly.

5. Accounting Services Approval

Management agrees with this repeat finding. Since the contract term is for a period of five years, and since retroactive approval of these accounting services was not granted by the State Auditor's Office, this finding will remain until the contract has ended, which occurred in April 2017.

6. Allowance for Doubtful Accounts

We do not recall being made aware of a keying error that affected our allowance calculations. However, going forward we will make sure that all such calculations are checked by a person other than the one who prepared them to confirm their accuracy.

We historically have not made write-offs of SNAP or TANF receivables because, even when written off, the government still considers them debts, and they may ultimately be collected through interception of government payments, such as tax refunds. Some debtors whose balances have remained in our system for many years are collected though the Intercept program when they finally retire and begin receiving Social Security retirement checks. Based on the broad reach of these intercept possibilities, many receivables will ultimately be collected. However, we will review our debtor population to identify events and circumstances, such as deaths of debtors, that may preclude collection through intercepts and render collection so highly remote that the associated amounts should be written off.

The CHIP report was not designed for reconciliation of total Accounts Receivable, and it will not agree to total receivables in SCEIS. Instead, the CHIP report was developed to track percentages collected each year against receivables generated up to 10 years prior, thereby providing key inputs for our Allowance for Doubtful Accounts calculation. Our reserve methodology calls for DSS to calculate the probable collection rate on receivables that are 10 years old or less and to reserve for the difference as uncollectible. It also calls for us to reserve 100% of those over 10 years old. We believe this is a reasonable approach. We derive the balance of receivables that originated more than 10 years ago from our Outstanding Claims Report, which does include all receivables and does reconcile to SCEIS. Therefore, we ultimately include the entire, reconciled SCEIS Receivables balance in our reserve calculation. Based on the foregoing, we do not believe any changes are needed in response to this finding.

The Child Support Overpayment receivables totaled only $114,923 as of June 30, 2016. Although our approach for computing the reserve is not based on detailed analysis and does not involve complex calculations, we believe the extremely low collection rates that have historically prevailed provide sufficient rationalization. Given the relative insignificance of the balance, and the known history, we believe our 80% uncollectible assumption produces a reserve that is adequate but not excessive within material limits. Even in the unlikely event that the actual experience rate is 20 percentage points higher or lower, the change in the reserve would only be $23,000. Therefore, we do not believe the benefit to be derived from a closer calculation of this estimate is worth the investment of time that would be required to compile new reports in the legacy child support system, analyze and test that data, and routinely review the data. In addition, the agency expects its new state-wide child enforcement information system to be operational in 2019, which would greatly reduce the return on any investment made in developing/monitoring a new methodology for computing the allowance.

As noted above, the SNAP and TANF receivables balances per our Outstanding Claims Reports do agree with SCEIS, and the CHIP report was never intended to reflect the entire population of receivables. Therefore, we expect a difference to exist between CHIP and SCEIS, which does not indicate the need for a write-off.

Please contact Susan Roben at 898-7427 if you have questions or need clarification. Thank you.

Sincerely,

Don D. Grant, CPA
Chief Financial Officer