

South Carolina Vocational Rehabilitation Department

Columbia, South Carolina

Independent Accountant's Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2012

State of South Carolina



Office of the State Auditor

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June 28, 2013

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, 2012, 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, 2012, 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 earmarked, restricted 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 (\$150,000 – earmarked fund and \$420,000 – federal fund) and +/- 10 percent.

- We made inquiries of management pertaining to the Department's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Department personnel performing their duties to determine if they understood and followed the described policies.

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 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 (\$60,000 – general fund, \$150,000 – earmarked fund and \$420,000 – federal fund) and +/- 10 percent.

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

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 9 new employees and 25 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 (\$60,000 – general fund, \$150,000 – 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 +/- 5 percent to ensure that payroll expenditures were classified properly in the Department'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 25 journal entries, 5 operating transfers, and 11 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 randomly. We found no exceptions as a result of the procedures.

5. Composite Reservoir Accounts

Reconciliations

- We obtained the year-end reconciliation and one other prepared by the Department for the year end June 30, 2012, and inspected 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 selected 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 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The selections were chosen randomly. 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, 2012, 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.

Mr. Richard H. Gilbert, Jr., Deputy State Auditor
South Carolina Office of the State Auditor
June 28, 2013

We judgmentally selected samples from the Department's reporting packages based on the number of items in the detail to the individual reporting package. Our findings as a result of these procedures are presented in finding Expenditure Cut-Off in the Accountant's Comments section of this report.

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, 2010, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2011.

There were no 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, 2010.

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 28, 2013

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 conditions described in this section have been identified while performing the agreed upon procedures but they are not considered violations of State Laws, Rules or Regulations.

Expenditure Cut-Off:

Condition:

We inspected twenty-five non-payroll disbursements to determine if these disbursements were 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, 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.

Four of the twenty-five transactions were recorded in the incorrect fiscal year. These transactions were for expenditures incurred in June 2011 (FY11), however, they were improperly recorded in July 2011 (FY12).

Also, we inspected an additional twenty-five non-payroll disbursements to determine if they were recorded in the correct fiscal year. Thirteen of the twenty-five transactions were recorded in the incorrect fiscal year. These transactions were for expenditures incurred in fiscal year 2012; however, they were improperly recorded in fiscal year 2013.

Reporting packages for the year ended June 30, 2012 were also inspected and the transactions noted above were not properly included in accounts payable for expenses incurred during fiscal year 2012 but not paid until fiscal year 2013.

Cause:

In the first sample of twenty-five non-payroll disbursements, two transactions were to pay clients for work performed related to on the job training at private employers' offices. The expenditures were paid out of the revolving fund, which had an expenditure cut-off date in the first week of July 2011. The documentation for these expenditures was received by the Department after the cut-off date. Thus, the expenditures were incurred in fiscal year 2011, but improperly recorded in fiscal year 2012.

Two transactions were for doctor records requested by the Department for clients. The records were received by the Department during fiscal year 2011 and therefore the expenditures were incurred during fiscal year 2011. However, the expenditures were improperly recorded in fiscal year 2012 as the invoices were not received until fiscal year 2012. These transactions should have been included in the June 30, 2011 accounts payable reporting package.

In the second sample of twenty-five non-payroll disbursements, eight of these transactions were to pay clients for work performed related to on the job training at private employers' offices. The expenditures were paid out of the revolving fund, which had an expenditure cut-off date in the first week of July 2012. The expenditures were incurred during the last two weeks of fiscal year 2012, but the documentation for these expenditures was received by the Department after the cut-off date. Thus, they were improperly recorded in fiscal year 2012.

Expenditure Cut-Off (continued):

Cause (continued):

Five transactions were for doctor records requested by the Department for clients. The records were received by the Department during fiscal year 2012 and therefore the expense was incurred during fiscal year 2012. However, the expense was improperly recorded in fiscal year 2013 as the invoices were not received until fiscal year 2013. These transactions should have been included on the June 30, 2012 accounts payable reporting package.

Effect:

Expenditures were incorrectly classified within each fiscal year as noted above. This resulted in the incorrect amount of expenditures being classified in the accounting records. Additionally, the fiscal year 2012 reporting packages had accounts payable that was understated as fiscal year 2012 expenses were recorded in fiscal year 2013.

Criteria:

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

Recommendation:

We recommend the Department improve procedures to ensure that expenditures are recorded in the correct fiscal year. The Department could compile a listing of all expenditures 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, 2010, and dated June 15, 2011. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2011.

There were no 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, 2010.



South Carolina Vocational Rehabilitation Department

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

Barbara G. Hollis, Commissioner

July 9, 2013

Scott and Company
702 Pettigru Street
Greenville, SC 29601

Please accept the following as our response to the 2012 Agreed Upon Procedures audit finding.

Expenditure Cut-Off

We agree with the finding of the auditors engaged for this Agreed Upon Procedures Audit. We have identified the processes that lead to the issue, and have taken corrective actions to prevent future occurrences. We will continue reviewing the process throughout year to ensure appropriate controls are in place so that expenditures and related accounts payable are reported in the correct fiscal year.

Sincerely,

Richard G. Elam
Assistant Commissioner, Administration

cc: Barbara G. Hollis, Commissioner