

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2011

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 31, 2012

The Honorable Nikki R. Haley, Governor
and
Mr. Robert Toomey, 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, 2011, in the areas addressed. (We applied no procedures to the Department's accounting records and internal controls for the fiscal years ended June 30, 2010 and 2009.) 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 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 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, \$19,800 – earmarked fund, and \$147,700 – federal fund) and ± 10 percent.

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The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Cash Receipt Cut-Off and General Ledger Account Posting in the Accountant's Comments section of this report.

2. **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 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 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 (\$48,900 – general fund, \$15,800 – earmarked fund, \$2,700 – restricted fund, and \$146,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Internal Control Over Accounting Transactions in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected 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; 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 selected new employees and those 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 (\$48,900 – general fund, \$15,800 – earmarked fund, \$2,700 – restricted fund, and \$146,000 – federal fund) and ± 10 percent.

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- 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 agency's accounting records.

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

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, operating transfers, and 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 agency's policies and procedures and State regulations.

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

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 and agency specific provisos.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2011, 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 findings as a result of these procedures are presented in Year-End Master Reporting Checklist, Capital Assets Reporting Package, and Interfund Payables Reporting Package in the Accountant's Comments section of this report.

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7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2011, 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.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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 and of the management of the 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.



Richard H. Gilbert, Jr., CPA
Deputy 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.

CASH RECEIPT CUT-OFF

During our cut-off test of revenues, we determined that one of 25 receipts tested was not recorded in the proper fiscal year. The receipt pertained to a refund of a fiscal year 2011 expenditure that was received July 1, 2011 and deposited July 5, 2011. The Department recorded the transaction in fiscal year 2012.

The State Treasurer's Office Memorandum dated June 10, 2011 regarding Fiscal Year End Requirements for SCEIS Deposits states, "If cash is received and deposited by an agency in July 2011 for Refund of Expenditure or Refund of Travel for Fiscal Year 2010-2011, use Period 12 on these deposits and must be received in the State Treasurer's Office workflow inbox not later than 10:30 a.m. on Friday, July 15."

We recommend the Department implement procedures to ensure that all revenues, including refunds, are recorded in the proper fiscal year in accordance with state regulations and policies.

EMPLOYEE TERMINATION PROCESS

During our test of employees who terminated employment, we determined that one of the six terminations was not processed according to Office of Human Resources policies. The former employee's last working day was March 16, 2011, but the Department did not remove the former employee on SCEIS for two months and used an effective date of March 2, 2011.

Because the Department entered an incorrect termination date, SCEIS initiated a transaction on the next pay cycle in the amount of negative \$888 (the amount the employee earned between March 2 and March 16) and an Employee Receivable was generated.

The Department discovered the error and it was corrected in SCEIS on June 24, 2011. This error correction resulted in an offsetting transaction of \$888 which did not post until the July 1, 2011 (fiscal year 2012).

South Carolina Human Resources Regulations Section 19-701.05 Central Human Resources Data System states, "As required by Section 8-11-230 of the South Carolina Code of Laws, the Office of Human Resources (OHR) provides a central database to maintain human resources data on all employees. To maintain the integrity and completeness of the system, all agencies are required to submit appropriate information in a timely manner."

We recommend the Department develop and implement procedures to ensure that employees terminating employment are removed in a timely manner from the appropriate SCEIS and OHR systems.

INTERNAL CONTROL OVER ACCOUNTING TRANSACTIONS

During our test of disbursements, we noted the Department paid several invoices twice. While attempting to correct the overpayments, the Department did not record two additional invoices received from the vendor.

In September 2010, the Department overpaid one vendor \$1,265. In December 2010, the Department overpaid the same vendor \$3,155. The Department received two invoices from the same vendor in February 2011 in the amounts of \$820 and \$500. Because of the prior overpayments Department personnel informed the vendor that the February invoices would not be paid.

Refunds of overpayments in the amounts of \$35 and \$1,870 were received from the vendor and recorded in fiscal year 2011. An additional refund of \$1,070 was received and recorded in fiscal year 2012. After all the vendor refunds and adjustments were processed the Department still had a credit balance of \$125. The Department was unaware that it still had a credit with the vendor.

Section 11-3-185 of South Carolina Code of Laws states that state agencies shall only draw funds from the Treasurer for actual expenses owing and due. A sound system of internal controls ensures that internal controls are designed and processes are in place to safeguard assets against unauthorized acquisition, use or disposition.

We recommend the Department develop and implement internal controls to ensure that errors are detected and corrected in a timely manner.

YEAR-END MASTER REPORTING CHECKLIST

During our review of the Department's Year-End Master Reporting Checklist we noted that the checklist was not completed according to instruction. The Department incorrectly answered "No" to questions 38 through 40 which relate to the State Treasurer's Office Master Lease Program. Our analytical review of expenditures indicated that the Department had expenditures that were required to be reported under the Master Lease Program.

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 recommend the Department follow the policies and procedures established by the Comptroller General's Office and thoroughly review each reporting package to ensure that it is accurately completed in accordance with the reporting package instructions.

CAPITAL ASSETS REPORTING PACKAGE

During our review of the Department's Capital Assets Reporting Package, we noted that the Department did not complete the package correctly. We determined that the Department reported low value assets as current year additions on the Capital Assets Summary Form. Section 3.8 of the Policies and Procedures Manual for Year-End Reporting Packages (the Manual) states, "Low value assets should not be included in the State's Financial Statements . . . "

In addition, the Department did not accurately report its capital asset transactions in SCEIS as instructed and the Department did not remove assets that were retired during the fiscal year from SCEIS. The Manual also states, "The State reports the removal of the book value and accumulated depreciation of a capital asset from its financial statements in the year of the retirement."

Finally we determined that the Department improperly recorded the intra-state transfer of an asset as data processing supplies expense rather than creating an asset in SCEIS. Section 3.8 of the Manual also states, "An agency may receive capital assets through an intra-state transfer from another agency or fund. The receiving agency should record the capital asset and accumulated depreciation at the same amount the transferring agency or fund removes from its books."

We recommend the Department carefully follow the policies and procedures established by the Comptroller General's Office and thoroughly review each reporting package to ensure that it is accurately completed in accordance with the provided instructions.

INTERFUND PAYABLES REPORTING PACKAGE

During our review of the Department's Interfund Payables Reporting Package, we noted that the Department incorrectly included a reimbursement request for goods/services relating to July 2011 (fiscal year 2012) on the Interfund Payable Summary Form.

The Comptroller General's Policies and Procedures Manual for Year-End Reporting Packages, Section 3.18 Interfund Payables (the Manual) states, "GAAP and State budgetary accounting practices require the State record revenues, expenditures, and interfund receivables with the offsetting payables in the fiscal year in which the agency received goods or services from, or owes a refund of revenue to, another State agency or another accounting fund within the same agency."

We recommend the Department carefully follow the policies and procedures established by the Comptroller General's Office and thoroughly review each reporting package to ensure that it is accurately completed in accordance with the provided instructions.

SECTION B - OTHER WEAKNESSES

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

GENERAL LEDGER ACCOUNT POSTING

During our analytical review of revenues, we noted that the Department did not accurately record a reimbursement of commuting mileage to the correct general ledger account. The Department director drove a state-owned vehicle and was required to reimburse the Department commuting mileage. The Department incorrectly recorded the July-October 2010 reimbursement under the Cellular Telephone Services account code.

The South Carolina Comptroller General's Office provides account coding specifications to ensure accurate recording of accounting transactions. The general ledger accounts are essential elements of the SCEIS system and correct general ledger account classification is vital for accurate reporting.

We recommend the Department implement procedures to ensure that accounting transactions are properly coded and entered into SCEIS.

JOURNAL ENTRY SUPPORT DOCUMENTATION

During our test of journal entries, we noted that the Department could not provide documentation to support one of 26 entries tested. In addition, the documentation provided by the Department did not adequately explain the purpose for the journal entry.

The Comptroller General's Accounting Policies and Procedures states, "It is important to fully document the purpose of each Journal Entry either on the face of the entry or in attachments."

We recommend the Department adequately review all supporting documentation to ensure that all journal entries are appropriate, are accurately made, and are supported by the proper documentation.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

During our test of the Department's Schedule of Federal Financial Assistance (SFFA), we noted that the Department inappropriately reported that it had received \$864,698 from the grantor. As a result, grant revenue and ending fund balance was overstated \$864,698.

The Office of the State Auditor's Letter of Instruction directs agencies to report only receipts for the current state fiscal year on the SFFA.

We recommend the Department carefully follow the instructions of the State Auditor and thoroughly review the Schedule of Federal Financial Assistance to ensure that it is accurately completed in accordance with the provided instructions.

MANAGEMENT'S RESPONSE

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
FOR THE FISCAL YEAR ENDING JUNE 30, 2011**

SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS

CASH RECEIPT CUT-OFF

We accept the Accountant's Comments. The transaction cited was the result of staff oversight. We have reviewed the internal year-end deposit policy with the appropriate staff to ensure that all year-end policies and procedures are consistently applied to all receipts in accordance with the state regulations and policies.

EMPLOYEE TERMINATION PROCESS

We accept the Accountant's Comments and have updated our human resources operating procedures to prevent a similar oversight in the future.

INTERNAL CONTROL OVER ACCOUNTING TRANSACTIONS

We accept the Accountant's Comments. The transactions cited were the result of duplicate payment requests that were inadvertently sent via mail and e-mail. DAODAS has now implemented proper internal controls in our Grants and Contract Section, along with the Accounting Section, to ensure that such errors do not reoccur. We have taken corrective action to recover overpayments.

YEAR-END MASTER REPORTING CHECKLIST

We accept the Accountant's Comments. DAODAS has developed and implemented procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and forms instructions.

CAPITAL ASSETS REPORTING PACKAGE

We accept the Accountant's Comments. DAODAS has reviewed the capital assets and taken the corrective action necessary to resolve the findings cited in accordance with the Comptroller General's and SCEIS Asset Team's guidance. The appropriate adjustments have been made to reflect in our future reporting packages.

INTERFUND PAYABLES REPORTING PACKAGE

We accept the Accountant's Comments. DAODAS has put into operation procedures to ensure proper separation of state fiscal years on accounting requests to prevent similar errors in the future.

SECTION B – OTHER WEAKNESSES

GENERAL LEDGER ACCOUNT POSTING

We accept the Accountant's Comments. DAODAS has established an account coding verification between accounting and procurement to ensure that the correct general ledger account classification is reported.

JOURNAL ENTRY SUPPORT DOCUMENTATION

We accept the Accountant's Comments and have updated our journal entry procedures to include attachment of sufficient supporting documentation to each adjustment.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We accept the Accountant's Comments and will perform a more detailed review of items to ensure accurate reporting.

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