

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
EXPENDITURE CUT-OFF	6
REPORTING PACKAGES	6
Master Reporting Package Checklist	6
Prepaid Expense and Other Assets Reporting Package	7
Operating Leases Reporting Package	7
SECTION B – OTHER WEAKNESS	9
NEW HIRE AND TERMINATION PAYMENTS	10
SECTION C – STATUS OF PRIOR FINDINGS	11
MANAGEMENT'S RESPONSE	12

State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 18, 2014

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, 2013, 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 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, restricted 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 (\$200 – general fund, \$21,500 – earmarked fund, \$0 – restricted fund, and \$148,200 – federal fund) and \pm 10 percent.

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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 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 (\$48,400 – general fund, \$21,500 – earmarked fund, \$1,400 – restricted fund, and \$150,200 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Expenditure Cut-Off 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 (\$48,400 – general fund, \$21,500 – earmarked fund, \$1,400 – restricted fund, and \$150,200 – federal fund) and ± 10 percent.

The Honorable Nikki R. Haley, Governor
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September 18, 2014

- 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. Our finding as a result of these procedures is presented in New Hire and Termination Payments 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. 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 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, 2013, 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.

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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, 2013, 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 Office resulting from our engagement for the fiscal year ended June 30, 2011, to determine if the Office had taken corrective action. We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2012.

Our finding as a result of these procedures is presented in Reporting Packages 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 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.



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.

EXPENDITURE CUT-OFF

Our test of twenty-five randomly selected fiscal year 2013 expenditure transactions revealed one transaction which was recorded in the wrong fiscal year. The transaction was for fiscal year 2012 services but was paid and recorded in fiscal year 2013. In addition, the transaction was not recognized as a 2012 payable on the Department's accounts payable reporting package. This exception was the result of the timing of the transaction and failure to identify it as a payable at year-end closing.

The Comptroller General's year-end close-out procedures require that expenditures are recorded in the same fiscal year that the good or service is received.

We recommend the Department implement procedures to ensure that all transactions are recorded in the proper fiscal year.

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." Our testing of the Department's reporting packages disclosed the following exceptions:

Master Reporting Package Checklist

The accountant's comment titled Year-End Master Reporting Checklist reported in the State Auditor's Report on the Department for the fiscal year ended June 30, 2011, cited the Department for incorrectly indicating no financing agreement balance associated with the State Treasurer's Office Master Lease Program.

Our testing of the 2013 Master Reporting Package Checklist revealed that the Department again indicated no financing agreement balance associated with the State Treasurer's Office Master Lease Program, even though the Department continued to have expenditures charged to the Master Lease Program in the fiscal year.

Prepaid Expense and Other Assets Reporting Package

Our analysis of the items reported on the Prepaid Expense Analysis (Form 3.7.1), revealed several exceptions associated with the calculation of the Department's prepaid expense. The exceptions included several calculation errors, a reported item that should have been excluded, and an excluded item that should have been reported. In addition, for several prepaid items on the form, the date of benefits could not be verified on the Department's supporting documentation. Using the date of benefits reported by the Department for the unverified dates, the accumulated impact of the identified exceptions was an understatement of reported prepaid expense of \$2,245.

Operating Leases Reporting Package

The Department properly completed the Operating Leases Summary Form (Form 3.09.1), Part I, which revealed that none of the Department's rent expense was associated with required minimum lease payments for operating leases. However, the Department included an Operating Leases Future Minimum Payment Schedule (Form 3.09.1a) with the reporting package. The form reported future minimum lease payments associated with the Department's contingent rentals which should not be reported in this manner due to their removal through the reconciliation in Part 1 of the Operating Leases Summary Form.

The reporting package exceptions were the result of Department interpretation of the applicable instructions as well as errors in completion and review of the forms.

We recommend the Department develop and implement procedures to ensure that all reporting packages are completed in accordance with the Reporting Policies and Procedures Manual and form instructions.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures, but is not considered a violation of State Laws, Rules or Regulations.

NEW HIRE AND TERMINATION PAYMENTS

For two of five payroll transactions tested for selected new employees and for two of five payroll transactions tested for those who terminated employment, the Department's supporting documentation (ie - termination date, leave payout) did not support the payment made. The differences between the support and the payment for the four transactions ranged from \$35 to \$160. The Department was unable to explain the reason for the differences between their support and the amount of the payments generated in the South Carolina Enterprise Information System (SCEIS).

An effective set of internal controls includes controls to ensure that accounting transactions are adequately supported by source documentation.

We recommend the Department implement procedures to ensure that all payments to new employees and terminating employees are adequately supported by Department documentation.

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, 2011, and dated August 31, 2012. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2012. We determined that the Department has taken adequate corrective action on each of the findings except we have repeated Year-End Master Reporting Checklist from that report in the finding Reporting Packages.

MANAGEMENT'S RESPONSE

**MANAGEMENT RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

SECTION A – VIOLATION OF STATE LAWS, RULES OR REGULATIONS

EXPENDITURE CUT-OFF

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

YEAR-END MASTER REPORTING CHECKLIST

We accept the Accountant's Comments. The transaction cited was completed automatically by the State Treasurer's Office as a payment to SCEIS. DAODAS will report these transactions correctly in the future.

PREPAID EXPENSE REPORTING PACKAGE

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

OPERATING LEASE REPORTING PACKAGE

We accept the Accountant's Comments. DAODAS has reviewed the operating leases which have been determined to be contingent rentals and taken the corrective action necessary to resolve the findings cited in accordance with the Comptroller General's and State Auditors Team's guidance. The appropriate adjustments have been made and will be reflected in our future reporting packages.

SECTION B – OTHER WEAKNESSES

NEW HIRE AND TERMINATION PAYMENTS

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

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