

**SOUTH CAROLINA
DEPARTMENT OF DISABILITIES
AND SPECIAL NEEDS**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 2, 2018

Members of the Commission
South Carolina Department of Disabilities and Special Needs
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Disabilities and Special Needs (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 either for the purpose for 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 related to financial activity of the Department. 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 Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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 governing body and management of the South Carolina Department of Disabilities and Special Needs 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.

Yours very truly,

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures - South Carolina Department of Disabilities and Special Needs (J16)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$50,000 and 10% for General Funds, \$2,500,000 and 10% for Earmarked Funds, \$15,000 and 10% for Restricted Funds, and \$10,000 and 10% for Federal Funds.
2. Randomly select twenty-five cash receipts transactions and inspect 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, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select nine cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$1,500,000 and 10% for General Funds, \$2,500,000 and 10% for Earmarked Funds, \$10,000 and 10% for Restricted Funds, and \$10,000 and 10% for Federal Funds.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy / confirm proper sales/use tax.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$1,500,000 and 10% for General Funds, \$2,500,000 and 10% for Earmarked Funds, and \$10,000 and 10% for Restricted Funds.
8. Randomly select twenty-five employee payments and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect 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 Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect 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 Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Randomly select ten bonus pay disbursements to determine:
 - The employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - The transaction was appropriately documented and approved.
10. Randomly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
11. Randomly select twenty-five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department'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. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations over 10%.
13. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations over 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

14. Randomly select twenty-one journal entries and four transfers for the fiscal year to:
- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirm compliance with Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Reporting Packages

17. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
18. In addition to the procedure above, we will perform the following:
- Cash and Investments Reporting Package

Determine if responses and amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the South Carolina Enterprise Information System (SCEIS) Yearend Reporting – Cash and Investments report, bank statements, year-end reconciliations and/or Department prepared/maintained records. Furthermore, determine if the Department's petty cash account was properly authorized by the Office of the State Auditor.

- Other Receivables Reporting Package

Determine if reported amounts are accurate based on inspection of the SCEIS general ledger, haphazardly selected transactions, the SCEIS Yearend Reporting – Accounts Receivable Current with Customer report and/or Department prepared records.

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Reporting – Inventory report. In addition, determine if the Department's physical inventory was properly completed by agreeing haphazardly selected amounts to the SCEIS general ledger and/or Department prepared records.

Reporting Packages (Continued)

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.

Haphazardly select five capital asset acquisitions and inspect supporting documentation to determine the asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with State policy.

Haphazardly select five capital asset retirements and inspect supporting documentation to determine the asset was properly removed from the Department's books and the disposal was properly approved.

- Accounts Payable

Determine if reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, SCEIS Yearend Reporting – Prior Year Payables with Vendor and/or Department prepared records. In addition, haphazardly select five payable transactions to determine if the amounts were properly classified.

- Interfund Payables and Receivables Reporting Package

Determine if reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting – Inter-Agency Prior Year Payables with Vendor report and/or Department prepared records. In addition, haphazardly select payables/receivables as necessary to determine if amounts were properly classified.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select three payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified and reported and excluded from the original Accounts Payable Reporting Package submission.

Finding:

On the subsequent events questionnaire, the Department responded that no late submissions of leave were identified. However late submissions of leave exceeding \$6,000 existed in the leave system when the subsequent events questionnaire was submitted.

Management's Response:

The CG discontinued reporting package 3.17 Payroll Liabilities beginning in FY 2017 which caused confusion regarding the need to update this information for the Subsequent Events reporting package. In the future DDSN will ensure it reruns all pertinent SCEIS reports to quantify late submissions of leave prior to submission of the Subsequent Events reporting package.

Composite Reservoir Accounts

19. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
20. Obtain fiscal year monthly reconciliations for each composite reservoir account and for ten haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
21. Haphazardly select and inspect twenty composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
22. Haphazardly select and inspect twenty composite reservoir account 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Finding:

Six of the ten reconciliations selected were not prepared in a timely manner in accordance with the Department's procedures. On eight of the ten reconciliations we were unable to confirm through supporting documentation some of the reconciling items and/or their resolution in a subsequent month.

Management's Response

DDSN will review existing policies and procedures with all regional accounting offices and enhance monitoring efforts to ensure all reconciliations are done in a timely fashion and that all supporting documentation is attached.

Commission Minutes

23. Inspect the Department's approved minutes beginning with the first day of fiscal year 2017 through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.

Internal Audit Reports

24. Inspect the Department's internal audit reports beginning with the first day of fiscal year 2017 through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.