Independent Accountant’s Report on Applying Agreed-Upon Procedures

February 20, 2019

Ms. Sara Goldsby, Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
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 Alcohol and Other Drug Abuse Services (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. 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:

- Errors of less than $1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than $1,000 related to reporting packages.

This report is intended solely for the information and use 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. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Agreed Upon Procedures - South Carolina Department of Alcohol and Other Drug Abuse Services
(J20)

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 from management an understanding of variations over $13,000 - Earmarked Funds, $200,000 - Federal Funds and 10%.

2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
   - Agree transaction amount, date, payer, document number, and account classification 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.
   - 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

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over $62,000 - General Funds, $14,000 - Earmarked Funds, $700 - Restricted Funds, $208,000 - Federal Funds and 10%.

4. 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.
   - The transaction is properly classified in the general ledger.
   - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
   - Determine that disbursements are recorded in the proper fiscal year.
   - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures selected, inspect supporting documentation to determine:
   - 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.
Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select five purchasing card transactions from the Comptroller General’s listing of purchasing card transactions for Fiscal Year 2018 to determine:
   - The cardholder is an authorized user.
   - The purchase is authorized based on the cardholder’s job title/position.
   - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
   - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Finding

For three of the federally funded disbursements inspected, it was determined that, due to the associated contractual arrangement with the Federal entity, the related activity should no longer be accounted for as a grant and should not be identified as federal financial assistance on the Department’s Schedule of Expenditures of Federal Awards. It was noted that the Department has appropriately accounted for and reported this activity in previous years, based on the original arrangement with the Federal entity.

Management’s Response

The Department’s initial determination for reporting this funding as federal financial assistance on the Schedule of Expenditures of Federal Awards was made after consultation with the Office of the State Auditor (OSA). The accounting and reporting of these funds has remained consistent through the duration of the contractual agreement, however we will comply with the request to no longer report this federal arrangement on the Schedule of Expenditures of Federal Awards.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over $62,000 - General Funds, $14,000 - Earmarked Funds, $700 - Restricted Funds, $208,000 - Federal Funds and 10%.

7. 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 greater than 10%.

8. 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 greater than 10%.

9. Randomly select six employee payments and inspect supporting documentation during the fiscal year to:
   - 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.

10. Haphazardly select 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.
Payroll (Continued)

11. Haphazardly select four 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.

Finding

For one of the five terminated employees inspected, the leave balance payout exceeded the maximum allowed to that employee by approximately $70.

Management’s Response

We agree with the auditor’s comments. To avoid future overpayments, the Department’s Human Resource Manager will take additional precautions when calculating payouts, and a member of the Finance staff will confirm the accuracy of payouts before processing. This confirmation process should reduce future errors.

Journal Entries and Transfers

12. Haphazardly select eight journal entries and one transfer 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.

Reporting Packages

13. 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.

14. In addition to the procedure above, perform the following:

- Grants and Contributions Revenue Reporting Package
  
  Haphazardly select five grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, fund, grant number, and CFDA number agree to the South Carolina Enterprise Information System (SCEIS) general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and/or deferred revenue to determine accuracy.

- Other Receivables Reporting Package
  
  Haphazardly select five receivables to determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Accounts Receivable Current with Customer report and/or Department prepared records.
Reporting Packages (Continued)

- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Reporting - Prepaid Expenses report and/or Department prepared records. In addition, select both prepaid expenses reported to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting - Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) One haphazardly selected contingent rental payment; (2) One haphazardly selected rental payment from each remaining category.

- Accounts Payable Reporting Package

Haphazardly select five payables to determine if reported amounts were properly identified, classified, and reported based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor Report and/or Department prepared records.

- 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 four payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, reported, and excluded from the original Accounts Payable Reporting Package submission.

Findings

Accounts Payable Reporting Package

Reported accounts payable was understated by approximately $84,000, primarily due to the inadvertent exclusion of interdepartmental payables. In addition, some intergovernmental payables were misclassified as vendor payables and grant payables were not properly applied to the applicable grants receivable balances on the grants reporting package.

Subsequent Events Questionnaire

The Department inadvertently failed to report an update to the compensated absences liability for approximately $3,000 due to late leave.

Management’s Response

We agree with the auditor’s comments. The Department’s Division of Finance and Operations will adhere to the instructions of the CAFR and recommendations of the State Auditors to ensure proper classification of payables on the reporting packages. The Department’s Finance staff have scheduled a review/technical assistance session with CAFR staff on closing packages to improve its year-end submissions.
Governance, Risk and Compliance {GRC} SCEIS Module

15. Inspect the SCEIS GRC system to identify any new controls since the prior year inspection of this system. Confirm with management that any new controls identified are operating as designed.

We found no exceptions as a result of the procedures.

Appropriation Act

16. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.

17. Confirm compliance with the Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Status of Prior Findings

18. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Department has taken adequate corrective action on the findings reported during the engagement for the prior fiscal year, except for accounts payable classification discrepancies noted in the applicable finding above.