

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

September 4, 2019

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, 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 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.

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 from management an understanding of variations over \$30,000 – General Funds, \$2,000,000 – Earmarked Funds, \$10,000 – Restricted Funds, \$15,000 – Federal Funds and 10%.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, 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.

Finding:

Three of the twenty-five receipt transactions inspected were for the sale of services but were recorded as sales of goods.

Management's Response:

Agency concurs with finding. The Agency will review cash receipts as made to ensure the proper general ledger code is used during the workflow process. Reviewer will ensure that general ledger code 4480010000 is used for Sale of Goods (examples, pic-nick-packs, plants, floral arrangements, and gift shop sales) and general ledger code 4480020000 is used for Sale of Services (example car wash). The above information was provided per written guidance to the regional offices with work activities to ensure accurate coding.

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 \$1,500,000 – General Funds, \$2,000,000 – Earmarked Funds, \$10,000 – Restricted Funds, \$15,000 – 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.
 - Disbursement is recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

We found no exceptions as a result of the procedures.

Payroll

5. 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 \$1,500,000 – General Funds, \$2,000,000 – Earmarked Funds, \$10,000 – Restricted Funds and 10%.
6. 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%.
7. 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%.
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. Haphazardly select fifteen 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.
 10. Haphazardly select fifteen 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. Haphazardly select ten bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Payment agreed to supporting documentation.
 - Bonus pay was approved by the appropriate supervisor.

Payroll (Continued)

Finding:

We were unable to confirm accurate payment through the supporting documentation for three new hire and two termination paychecks. Four of the discrepancies were less than \$30, and related to shift premiums or leave without pay calculations. The fifth discrepancy was several hundred dollars and the supporting documentation was not adequate or available to determine the exact cause of the discrepancy.

Management's Response:

Agency concurs with finding. The Agency will review its payroll process to identify the gaps that caused these discrepancies to occur. Internal controls will be strengthened to address the weakness that allowed these errors to occur and go undetected.

Journal Entries and Transfers

12. Haphazardly select sixteen journal entries and nine transfers 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:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting – Cash and Investments report and/or Department prepared/maintained records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Grants and Contributions Revenue Reporting Package

Select all grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, fund, grant number, and CFDA number agree to the SCEIS general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue.

- Other Receivables Reporting Package

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

Reporting Packages (Continued)

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Reporting – Inventory report and/or Department prepared records.
- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Reporting – Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.
- 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.
- 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) five haphazardly selected contingent rental payments; (2) five haphazardly selected payments included in the remaining rental payment classifications; and (3) the effective dates, current expense, and future minimum lease payments of all operating leases.
- Accounts Payable Reporting Package

Determine if reported amounts are reasonable/accurate based on the 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 Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on the inspection of SCEIS general ledger, SCEIS Yearend Reporting – Inter-Agency Prior Year Payables 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 five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Reporting Packages (Continued)

Findings:

Operating Leases - Due to a lack of lease documentation provided, we were unable to confirm the accuracy of reported future minimum lease payments for one of the two operating lease items reported.

Accounts Payable - Our inspection of the Subsequent Events Accounts Payable Worksheet revealed that a payable transaction of approximately \$4,000 that should have been included in the total reported payable was excluded.

Management's Response:

Agency concurs with finding. Agency restructuring and realignment has been completed to centralize responsibility for all contracts – to include leases. With these changes, we deem that appropriate procedures are now in place to ensure all required documentation is obtained. Agency staff has been informed of the requirements for the reporting packages for future submissions as it relates to identification of accounts payable.

Composite Reservoir Accounts

15. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
16. Obtain fiscal year monthly reconciliations for each composite reservoir account and for eight of the reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, 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.
17. 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.
18. 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.

Composite Reservoir Accounts (Continued)

Finding:

Similar to the finding reported in the prior year engagement, four of the eight reconciliations selected were not prepared in a timely manner in accordance with the Department's procedures and on five of the eight 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:

Agency concurs with finding. The agency is currently preparing to implement a new system, Intacct. The new system will eliminate some of the timing issues, as well as, missing support documentation. The required timing will be detailed in the procedures for the new system. The agency has addressed the importance of required deadlines with the appropriate region and all future activity will be processed within the mandated timeframe. An internal review process will be implemented to randomly and routinely determine if reconciliations are being completed timely.

Governance, Risk and Compliance (GRC) SCEIS Module

19. Select all controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Capital Assets

20. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
21. Haphazardly select five capital asset retirements and inspect supporting documentation, and the SCEIS Asset History Sheet, to determine that each asset was approved for removal, and proper documentation supports the retirement in accordance with the CG's Reporting Policies and Procedures Manual.

Finding:

The Department could not provide adequate documentation to support one of the five capital asset disposals selected for inspection.

Management's Response:

Agency concurs with findings. The Agency has returned the asset back to inventory. The generator was added to the asset for the building. The building was destroyed and the generator was moved to another location. The generator asset component was retired in error. Personnel will be trained in the need to properly identify asset disposals before they are removed from Agency inventory.

Internal Audit Reports

22. Inspect the Department's internal audit reports beginning with the end date of prior year fieldwork through the end of our fieldwork to determine impact on our agreed upon procedures.

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

Appropriation Act

23. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
24. 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.

Commission Minutes

25. Inspect the Department's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork to determine impact on our agreed upon procedures.

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

Status of Prior Findings

26. 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 each of the findings, except where identified in the Composite Reservoir Accounts finding above.