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State Auditor's report June 30, 2017

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**SOUTH CAROLINA
DEPARTMENT OF SOCIAL SERVICES
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

September 4, 2018

Ms. Joan Meacham, Acting State Director
South Carolina Department of Social 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 Social Services (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 management of the South Carolina Department of Social 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 Related to the South Carolina Department of Social Services (L04)**

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 - General Fund, \$2,000,000 – Earmarked Fund, \$5,000 – Restricted Fund, \$500,000 – Federal Fund, and 10%.
2. Randomly select twenty-five cash receipts transactions (excluding transactions from general ledger account 4530030014 – Miscellaneous Revenue-Child Support Enforcement) 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 twenty-five cash receipts and inspect supporting documentation to determine that revenues 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 \$3,000,000 – General Fund, \$2,000,000 – Earmarked Fund, \$50,000 – Restricted Fund, \$3,000,000 - Federal Fund (excluding fringes), and 10%.
5. Randomly select twenty-five non-payroll disbursements transactions (excluding transactions from general ledger account 5110010000 – Client Payments) 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.

For federally funded cash disbursements/non-payroll expenditures we will 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)

6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.
7. Obtain a listing of all authorized procurement card users in fiscal year 2017 and their credit limits. Additionally, we will haphazardly select fifteen non-payroll disbursements from the Comptroller General's listing of purchasing card transactions for fiscal year 2017 in order to determine:
 - The cardholder is an authorized user.
 - The purchase is reasonable 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 card limit and there was no indication of transaction splitting.

Finding:

For three of the twenty-five selected cash disbursement transactions, the transactions were coded to the incorrect general ledger accounts. All three transactions were related to telephone services but were improperly charged (or partially charged) to internet services. Additionally observed, in our inspection of expenditure changes between fiscal years 2017 and 2016, three rental payments were incorrectly coded to a supply and materials general ledger account instead of a fixed charge general ledger account.

Management's Response:

Management agrees with this finding and, as part of its continuing efforts to improve the accuracy of transaction coding, the Agency will conduct a specific review of the types of charges noted above to ensure these mistakes have been eliminated or corrected in fiscal year 2018.

Payroll

8. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$3,000,000 – General Fund, \$2,000,000 – Earmarked Fund, \$50,000 – Restricted Fund, \$3,000,000 – Federal Fund (excluding fringes), and 10%.
9. Haphazardly select twenty 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.
10. Haphazardly 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.
11. 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 changes greater than 10%.

Payroll (Continued)

12. 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%.

We found no exceptions as a result of the procedures.

Journal Entries

13. Randomly select twenty-five journal entries 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

14. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
15. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable. The agreed-upon provisos are 38.1, 38.4, 38.7, 38.15, 38.16, 38.17, 38.25, & 38.26.

We found no exceptions as a result of the procedures.

Reporting Packages

16. 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.
17. In addition to the procedure above, we will 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 records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Reporting - Inventory report. In addition, determine if the Department's reconciliation of physical inventory was properly completed by agreeing amounts to 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, haphazardly select fifteen prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.

- Accounts Payable

Haphazardly select ten 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, and SCEIS Inter-Agency Prior Year Payables with Vendor Business Warehouse Reports. Additionally, determine if SNAP and TANF payables are properly included in the accounts payable package.

- 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.

Findings:

As a result of our procedures, we identified the following:

Cash and Investments Reporting Package

Similar to the finding reported in the prior year, we observed that the Department reported incorrect recorded and reconciled balances for three accounts. Also, the Department reported incorrect bank balances for three accounts. Further, based on the Department's responses, the reporting package directed the Department to provide additional information to the CG's office since these accounts are not reflected in SCEIS. Based on inquiry with the Department, they did not provide the additional information as directed by the reporting package.

Inventory Reporting Package

Similar to the finding reported in the prior year, discrepancies were identified between the amounts reported on the inventory reporting package and the Department's supporting documentation. The reported inventory balance related to food banks could not be confirmed. Additionally, we observed the Department was not able to locate supporting documentation for \$4,010 of the \$34,449 inventory balance related to gift cards and bus tickets.

Prepaid Reporting Package

We observed the supporting worksheet did not correctly sum the prepaid amounts for proper reporting by general ledger account and fund, due to formula errors. As a result, non-current prepaid expenses were understated by a total of \$1,100. We additionally observed that out of the fifteen selected prepaid items for detailed inspection, two items had prepaid amounts that were calculated incorrectly due to formula errors. These errors overstated non-current prepaid expenses by \$1,200.

Reporting Packages (Continued)

Accounts Payable

The fiscal year 2017 accounts payable balance, reported through a combination of the accounts payable and subsequent events reporting package process, was understated by \$105,223. This was primarily due to the inadvertent omission of \$97,296 from interdepartmental payables under \$100,000, which were not included with subsequent events reporting. The remaining errors and omissions totaled \$7,927. Additionally, we observed vendor payables of \$178,662 were misclassified as intergovernmental payables.

Subsequent Events (Compensated Absences)

The combination of late submissions of leave and late leave cancellations caused the Department's compensated absence liability balance to be overstated by approximately \$35,488. These adjustments were not reported through the Department's subsequent events reporting.

Management's Response:

Cash and Investments Reporting Package

Management agrees with this finding. Management re-assigned completion of this package in 2018 and conducted training to ensure the staff had a clear understanding of how to correctly provide all the information requested. Based on management's final review of the 2018 package, the Agency eliminated all the errors noted above and submitted to the CG's office all the information called for in the instructions for that package.

Inventory Reporting Package

Management agrees with this finding. The summarization of the inventory for the 2018 Inventory Reporting Package was reassigned to an experienced accountant, and the submitted package was free of the issues noted in this finding.

Prepaid Reporting Package

Management agrees with this finding and will ensure that a more thorough review and approval of prepaid expenses is performed in future years. The preparation of the prepaid expense closing package will also be moved to the General Ledger team beginning in FY19.

Accounts Payable

Management agrees with this finding and has communicated with staff the importance of understanding each category to be reported, and reviewing their work to ensure accurate reporting.

Subsequent Events (Compensated Absences)

Management agrees with this finding and will direct Finance staff to perform an additional review of information provided by Human Resources regarding late time and leave submissions in preparation of the subsequent events closing package.

Composite Reservoir Accounts

18. Obtain from the Department a listing of Department composite reservoir accounts and confirm that the listing is complete.
19. Obtain fiscal year monthly reconciliations for each composite reservoir account, haphazardly select two reconciliations from each account, and 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.
 - Obtain a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy, if applicable.
 - Agree the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger, if applicable.
20. Haphazardly select fifteen 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.
21. Haphazardly select fifteen 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:

For one of the fifteen selected cash receipt transactions, we were unable to determine if the receipt for \$5,652 was correctly recorded in the proper fiscal year in Acumatica since the Department was unable to provide documentation of when the county office received the checks and money order in the batch entry.

Management's Response:

Management agrees with this finding. The deposit was made on July 1, 2016, and it consisted of payments received by the Agency and segregated for special handling because they were to be deposited into the Social Security Trust Account. There was no documentation showing the dates the Agency received the checks because, unlike all other checks it receives, the Agency historically had not recorded these Social Security Account payments in the daily receipts log. The Agency now requires all checks, including those for the Social Security account, to be recorded in the daily check log the day they are received.

Acumatica Transactions

22. Randomly select ten cash receipts transactions from Acumatica and inspect supporting documentation to:
- Agree transaction amount, date, payor, transaction number, and account coding to Acumatica.
 - 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.
23. Randomly select ten disbursement transactions from Acumatica and inspect supporting documentation to determine:
- Transaction invoice(s) agree(s) with Acumatica 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.

We found no exceptions as a result of the procedures.

Procurements

24. Haphazardly select three procurements from each of the following procurement categories (small purchases from \$2,500 to \$10,000, purchases from \$10,000 - \$50,000, contracts over \$50,000, sole source, and emergency procurements). Additionally, determine that the procurement was handled in accordance with the South Carolina Procurement Code and Regulations including:
- \$2,500 - \$10,000 – Solicitation of written quotes, bids, or proposals from three qualified sources of supply.
 - \$10,000 - \$50,000 – At least one advertisement in South Carolina Business Opportunities and written solicitations for quotations and proposals. The award was made to the lowest responsive and responsible source or, when a request for proposal process is used, the highest-ranking offeror.
 - Over \$50,000 – Evidence of compliance with SC Code of Laws Section 11-35-1520 or as otherwise provided in Section 11-35-1510.
 - Sole Source – There was written documentation providing the determination and basis for the proposed procurement and explanation for why no other vendor would be suitable or acceptable. Additionally, procurement was reported to the Materials Management Office.
 - Emergency – There was written determination of the basis for the emergency. Additionally, the procurement complied with SC Code of Laws Section 11-35-1570.

We found no exceptions as a result of the procedures.

Legal Payments and Payments to Attorneys

25. Haphazardly select a total of four transactions coded to general ledger accounts 5021010000 and 5021010002 from the Yearend Reporting – Litigation Expense report to inspect for proper account coding and that the transactions did not relate to attorney payments.

Legal Payments and Payments to Attorneys (Continued)

26. Haphazardly select four attorney / law firm transactions coded to general ledger account 5021020000 from Yearend Reporting – Litigation Expense report and determine if the Department obtained approval from the Attorney General's Office before engaging attorneys / law firms on a fee basis, and that amounts and service date ranges were charged within approved limits.

We found no exceptions as a result of the procedures.

Internal Audit Reports

27. Haphazardly select and inspect seven of the Department's internal audit reports related to fiscal year 2017 for items relevant to the engagement.

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

Status of Prior Findings

28. 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 the reporting package findings above.