

**SOUTH CAROLINA
DEPARTMENT OF MENTAL HEALTH
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2016



George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 4, 2017

Members of the Commission
South Carolina Department of Mental Health
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 Mental Health (the Department), solely to assist you in evaluating the systems, processes and behaviors of the Department for the fiscal year ended June 30, 2016. 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 for the purpose of 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 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.

Members of the Commission
South Carolina Department of Mental Health
August 4, 2017

This report is intended solely for the information and use of the governing body and management of the South Carolina Department of Mental Health 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.



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State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures Related to the South Carolina Department of Mental Health (J12)**

Cash Receipts

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations and those of the prior year. Obtain and document an understanding of variations over \$17,000 and 10% for the General Fund and \$3,000,000 and 10% for the Earmarked Fund.
2. Randomly select twenty-five cash receipts 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.
 - 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 receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements

4. Compare current year non-payroll expenditures at the subfund and account level and those of the prior year. Obtain and document an understanding of variations over \$1,000,000 and 10% for the General Fund and the \$243,423 increase in Travel (505- account) for the Federal Fund.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by agency procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by agency procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the agency, properly coded to the general ledger.
 - Disbursement complied with all State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Clerical accuracy/verify proper sales/use tax.

For Federal Assisted Programs 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.
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. Randomly select twenty-five employees, haphazardly select one paycheck from each, 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 agency.
- Agree gross pay to supporting documentation noting 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 agency.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

8. Randomly select eighteen employees to inspect bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
9. We will use the twenty-five randomly selected employees from our payroll inspection and haphazardly select eight employees to inspect bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations Act to determine:
 - Employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015.
 - Employee does not make more than \$100,000 annually.
 - Bonus pay was split between funds according to the ratio of the employee's base salary.
10. Randomly select twenty-five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the agency'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 determine if they were removed from the payroll in accordance with the agency'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 to the percentage change in employer contributions. Obtain an explanation for changes of +/- 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 for changes of +/- 10 %.

Finding

Discrepancies were noted between the accounting system and supporting documentation regarding the termination date for one of the twenty-five randomly selected employee terminations. These discrepancies prevented independent accountant verification of proper final payments made to the terminating employee.

Management's Response

DMH will ensure timely follow up with supervisors in support of initializing the required steps and paperwork termination notification processes.

Journal Entries

14. 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

15. Complete the Appropriation Act work program provided to management noting areas of noncompliance, if any.
16. Confirm compliance with agency-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedures.

Reporting Packages

17. Obtain copies of the Master Reporting Checklist, Cash and Investments Reporting Package, Operating Lease Reporting Package, Accounts Payable Reporting Package, Other Payroll Liabilities Reporting Package and Subsequent Events Reporting Package for the fiscal year end that were submitted to the Office of the State Comptroller General. Inspect the reporting packages to:
 - Determine if preparation was in accordance with Comptroller General Office requirements.
 - Determine if amounts reported in the reporting packages agree with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

Composite Reservoir Accounts

18. Obtain a listing of agency composite reservoir accounts and confirm with agency management that the listing is complete.

Composite Reservoir Accounts (Continued)

19. 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.
 - Obtain a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy.
 - Agree the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger.
20. Inspect twenty-five haphazardly selected composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations and that they were recorded in the proper fiscal year.
21. Determine revenue collection and retention or remittance is supported by law.
22. Inspect twenty-five haphazardly selected composite reservoir account 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 agency, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Minutes

23. Inspect the Department's approved Board minutes beginning after the end date of inspection from prior year fieldwork through the end of our fieldwork.

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

Status of Prior Findings

24. Inquire about the status of findings reported in the Accountant's Comments section of the engagement for the prior fiscal year to determine if the agency has taken appropriate corrective action.

We determined that the Department has taken appropriate corrective action on each of the findings, except as related to the finding noted above.