

**SOUTH CAROLINA DEPARTMENT OF  
HEALTH AND HUMAN SERVICES**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2018**



Independent Accountant's Report on Applying Agreed-Upon Procedures

February 11, 2019

Mr. Joshua D. Baker, Director  
South Carolina Department of Health and Human 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 Health and Human 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 Health and Human 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 Health and Human  
Services (J02)**

**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 for the following: General Fund: G/L Account 4280020000; Earmarked Fund: GL Accounts 4520010008 (for fund 31880000) and 4310040005 (for fund 34410000); Restricted Fund: GL Accounts 4310040002 and 4890040000; and Federal Fund: GL Account 4520010033.

**Finding**

Indirect cost recoveries of \$712,855 related to the Statewide Cost Allocation Plan were recorded in G/L Account 4280020000 (Fed Oper Grant – Rest) instead of G/L Account 4300040000 (IDC Recovery Account).

**Management’s Response**

The agency has historically recorded the statewide indirect cost recoveries in G/L account 4280020000.

**Corrective Action**

The indirect cost recoveries will be recorded to G/L account 4300040000 beginning with the FY 2018-19 statewide indirect submission.

**Cash Disbursements/Non-Payroll Expenditures**

2. 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 for the following: General Fund: 502- accounts; Earmarked Fund: 502- accounts; and Restricted Fund: 517- accounts.
3. Haphazardly select fifteen procurement transactions and inspect supporting documentation to determine the disbursements complied with the Department’s procurement procedures as well as applicable sections of the State Consolidated Procurement Code.
4. Haphazardly select ten 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.

## Cash Disbursements/Non-Payroll Expenditures (Continued)

### Finding

We observed two purchases for renovations totaling \$7,499 and \$17,269 were split into four and seven consecutive procurement card transactions, respectively, in order to accommodate the single transaction limit of \$2,500.

### Management's Response

State Contract No. 4400017230 for Walk-in Building Supplies with Lowe's Home Centers, LLC, reads, in part, as follows:

Payments under this agreement are to be made at the point of sale with a procurement/purchasing card only (no purchase orders).

There is no limit to the dollar value or total volume of items a customer can purchase from the referenced Statewide Term Contract. The Procurement Officer followed the contractual requirement that they only use the P-Card since purchase orders are not accepted under this contract. Finally, the Procurement Officer acted in response to an approved 192.

However, the Procurement Officer inappropriately applied the P-card policy. They mistakenly thought that they were in compliance with the P-Card use policy as long as they did not exceed the \$2,500 per transaction and \$30,000 per month credit limit. Specifically, since the purchase was from a state term contract that had already been competitively procured, the Procurement Officer mistakenly determined that the \$2,500 "no-compete" purchase limit and splitting of purchases was not applicable to acquisitions from this Statewide Term Contract.

While the Procurement Officer believed that the purchase was made in accordance with a Statewide Term Contract which had been competitively procured, splitting the purchase to accommodate for the STL was a violation of Section II, D, of the South Carolina Purchasing Card Policy and Procedures.

### Corrective Action

SCDHHS will take appropriate disciplinary action against the Procurement Officer and Procurement Director regarding proper use and application of the P-Card policy, to include informing them that the STL applies regardless of whether the purchase is from a Statewide Term Contract or not. For any immediate needs, Procurement will submit a request to raise the Single Transaction Limit and await written approval from the Materials Management Office prior to making a purchase in excess of \$2,500.

### Payroll

5. 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%.
6. 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%.
7. Haphazardly select twenty 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.
8. Haphazardly 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.

## Payroll (Continued)

9. Haphazardly select three bonus pay disbursements to determine:

- The employee does not make more than \$100,000 annually.
- The bonuses received during the year did not exceed \$3,000.
- The transaction was appropriately documented and approved.

We found no exceptions as a result of these procedures.

## Journal Entries and Transfers

10. Haphazardly select ten journal entries and five transfers for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
- Confirm the transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of this procedure.

## Reporting Packages

11. 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.

12. 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 records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations and if all petty cash accounts were properly authorized by the Office of the State Auditor.

- 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) Fifteen haphazardly selected contingent rental payments; (2) The current expense and future minimum payments for fifteen haphazardly selected operating leases; and (3) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One Time/Unusual Rental Payments and Other Detailed Rental Charges).

- Loan and Note Receivable Reporting Package

Determine if amounts are reasonable/accurate based on inspection of the SCEIS general ledger and/or Department prepared records.

## Reporting Packages (Continued)

- 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, based on inspection of invoices, 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

### Cash and Investments Reporting Package

The Department was unable to provide approval from the Office of the State Auditor for its thirty-one regional petty cash funds totaling \$6,200.

### Management's Response

The petty cash accounts were established many years ago and the approval letter from the Office of the State Auditor could not be located at DHHS or at the Office of the State Auditor.

### Corrective Action

A new approval letter has been drafted and will be submitted to the Office of the State Auditor as part of the agency response.

### Operating Leases Reporting Package

The Operating Leases Reporting Package was not submitted to the Office of the Comptroller General by the due date established by the CG's Reporting Policies and Procedures Manual. The package was submitted two business days late.

Based on the records provided to us by the Department, the totals reported for Month to Month Rentals and Required Minimum Lease Payments for Operating Leases were overstated and understated by \$98,475, respectively, due to the misclassification of leases on the Operating Leases Summary Form – Lessee (Form 3.09.1).

Five contingent rental payments totaling \$2,457 were charged to G/L Account 5040027000 (IT – Rent Copying Equipment) instead of G/L Account 5040057000 (IT – Rent-Contingent Rental Payments). In addition, a software maintenance payment of \$187,802 was charged to G/L Account 5040057000 (IT – Rent-Contingent Rental Payments). This payment should have been charged to a contractual services account (502-) and subsequently removed from the package. As a result, Payments for Supplies were overstated by \$187,802 on Form 3.09.1.

The current expense reported for one selected operating lease was understated by \$6,532 on the Operating Leases Future Minimum Payment Schedule (Form 3.09.1a). In addition, the current expense reported for one additional operating lease, totaling \$427, could not be agreed to supporting documentation.

### Management's Response

We concur with the above findings related to the Operating Leases reporting package.

## **Reporting Packages (Continued)**

### **Corrective Action**

Beginning in FY 2018-19, the department will run reports monthly so that contingent rentals, maintenance charges and minimum lease payments can be properly recorded and any corrections to G/L accounts made prior to fiscal year end. This will also ease preparation of the reporting package at fiscal year end so that it can be submitted timely.

### **Subsequent Events Questionnaire**

In conjunction with Question #14 of the Subsequent Events Questionnaire, the Department submitted a schedule of late leave submissions. However, per comparison of the balances reported on the CG's Compensated Absences Report as of June 30, 2018 to the balances reported in SCEIS as of the submission date of the package, the schedule was not accurate or complete. Per our analysis, we identified additional late leave submissions of \$5,933.

### **Management's Response**

We concur with the above finding related to the Subsequent Events Questionnaire. Human Resources only reviewed leave submissions for instances of leave without pay and did not review late annual leave submissions.

### **Corrective Action**

All leave submissions submitted after the Compensated Absences report is generated will be reviewed for the Subsequent Events Questionnaire. Human Resources will identify all late leave submissions to include on the Subsequent Events Questionnaire and the Office of the Controller will review for accuracy.

### **Recommendation**

#### **Loan and Note Receivable Reporting Package**

The Department maintains promissory notes dating back to 1996 and 1997 for which payment has never been received. However, an allowance for uncollectible balances has not been established. Due to the age of the promissory notes, we recommend the Department discuss the balances in order to develop a methodology for calculating an allowance for uncollectible balances or writing off specific notes.

### **Management's Response**

We concur with this recommendation. Fiscal staff met with Third-Party Liability program staff and the Office of General Counsel on February 13, 2019 to determine if any note receivable balances could be written off. It was the recommendation of the Department's General Counsel to not write off any of the note receivable balances. Fiscal staff will develop a methodology to calculate an uncollectible allowance beginning with the FY 2018-19 reporting package.

### **Capital Assets**

13. Haphazardly select ten capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine if 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 the Office of the Comptroller General's Reporting Policies and Procedures Manual.

## **Capital Assets (Continued)**

### **Finding**

Five selected capital asset acquisitions were capitalized for the incorrect amount due to the improper allocation of sales tax and/or the exclusion of use tax or component, installation, and programming charges. The assets were understated by an aggregate total of \$12,184 in the SCEIS asset system.

### **Management's Response**

We concur with this recommendation. The incorrect tax code was applied to the purchase orders and was not corrected when the invoice(s) were processed. The Department did not include items such as mounting brackets in the cost of assets.

### **Corrective Action**

Procurement and accounts payable staff will be instructed on identifying and reviewing the proper sales and/or use tax code to be applied to equipment purchases. Accounts payable staff will include the review of the sales tax code as part of their written desk procedures. Further, the Department will coordinate with its audio / video vendor to provide the appropriate detail on their invoices so that all installation and programming charges can be allocated to assets and capitalized correctly.

### **Composite Reservoir Accounts**

14. Obtain a listing of composite reservoir accounts and confirm with Department management that the listing is complete.
15. Obtain fiscal year monthly reconciliations for each composite reservoir account and for two haphazardly selected reconciliations for each account, perform the following procedures:
  - Determine if 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.
16. Haphazardly select and inspect five receipts from each composite reservoir account to determine if they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
17. Haphazardly select and inspect five disbursements from each composite reservoir account to determine if they 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.

We found no exceptions as a result of these procedures.

## **Travel Advances**

18. Haphazardly select three travel advances and inspect supporting documentation to:
- Determine if the travel advance was not made to an employee for travel within the state without proper approval from the Comptroller General.
  - Determine if the travel advance was not made for more than 80% of the estimated amount of total travel expenses or made in instances where 80% of the estimated travel expense does not exceed \$250.
  - Determine if the Department maintained adequate records/supporting documentation regarding the advance.
  - Determine if the travel advance was submitted for approval no later than seven business days prior to the beginning of the trip.
  - Confirm the employee repaid the advance within thirty days after the end of the trip.

We found no exceptions as a result of this procedure.

## **Governance, Risk and Compliance (GRC) SCEIS Module**

19. For the sole control identified through the SCEIS GRC system that was in place during fiscal year 2018, inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of this procedure.

## **Appropriation Act**

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

We found no exceptions as a result of these procedures.

## **Status of Prior Finding**

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

We found no exceptions as a result of this procedure.