

**SOUTH CAROLINA DEPARTMENT OF
HEALTH AND ENVIRONMENTAL CONTROL**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

June 4, 2019

Mr. Rick Toomey, Director
and
Members of the Board
South Carolina Department of Health and Environmental Control
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 Environmental Control (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 Health and Environmental Control 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 Health and Environmental Control (J04)**

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 \$500,000 – General Funds, \$2,000,000 – Earmarked Funds, \$1,000,000 – Other Funds and 10%.
2. Haphazardly select twenty-five cash receipts transactions (excluding Federal drawdowns) 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 fiscal year 2018 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

We identified one out of twenty-five transactions where the Department coded part of a transaction to the incorrect GL account. The Department coded \$1,814 to GL Account 4890070000 - Other Reimbursement - State Agencies and \$1,113 to GL Account 5021450000 - Motor Vehicle Services. The Department should have coded the entire transaction (\$2,927) to GL Account 4890070000.

Management's Response

DHEC agrees with this finding. A clerical error was made by an employee who was not familiar with the proper GL code to use when charging labor to external customers. The employee was notified of the correct code to use for future transactions by his supervisor.

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 for the 502 - accounts in the General, Earmarked, Restricted and Federal funds.
4. Haphazardly select twenty-five non-payroll disbursements (excluding the federal programs Women, Infants, and Children (WIC) and Research and Development Cluster) 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.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- 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, 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.

We found no exceptions as a result of the procedures.

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 variations greater than 10%.
7. Haphazardly select twenty-five employees who terminated employment during the fiscal year and inspect supporting documentation to:
 - Determine the employee was removed from the payroll in accordance with the Department's policies and procedures.
 - Determine the employee's last pay check was properly calculated.
 - Determine the employee's leave payout was properly calculated in accordance with applicable State law.
 - Confirm the temporary (hourly) employee had a two week break in service before being rehired.
 - Determine the temporary (hourly) employee's timesheet was approved in a timely manner in accordance with the Department policies and procedures.
8. Haphazardly select twenty-five 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.
9. Haphazardly select five 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.

Payroll (Continued)

Finding

During our Inspection of Terminations, we identified four temporary employees that were not removed from the payroll system in accordance with Department policies and procedures. A similar finding was noted in the 2017 State Auditor's report.

Management's Response

DHEC agrees with this finding. The Agency will take extra steps during our periodic personnel coordinators meetings to educate staff on the requirement to terminate hourly employees. Starting in January 2019, the Agency began sending listings of hourly employees to all personnel coordinators reminding them of this requirement. Our internal policies and procedures are currently under review for updating.

Journal Entries and Transfers

10. Haphazardly select twenty-two journal entries and three transfers 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

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, we performed 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. Reconcile petty cash balance to OSA's petty cash authorization.
 - Other Receivables Reporting Package

Haphazardly select ten transactions to determine if reported amounts are accurately classified 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)

- 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 to SCEIS was properly completed by agreeing haphazardly selected amounts to the SCEIS general ledger and/or Department prepared records.

- 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) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (Other Adjustments); and (3) the effective dates, current expense, and future minimum lease payments of all operating leases.

- Accounts Payable

Determine if amounts agreed to the SCEIS general ledger, SCEIS Yearend Reporting – Prior Year Payables with Vendor report and/or Department prepared records. In addition, haphazardly select ten payables to determine if amounts were properly classified, calculated and reported based on inspection of invoices.

- Litigation Reporting Package

Haphazardly select five transactions from the SCEIS Yearend Reporting – Litigation Expense report to determine if the Department obtained approval from the Attorney General's Office to hire attorneys, to ensure amounts charged were within approved limits and service date range and to ensure proper coding of legal and attorney payments.

- 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 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, 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

During our inspection of the Other Receivables Reporting Package, we observed that the Department overstated both total and current receivables for fund 34720003 (Non-medical Receivables) by \$14,500.

The Department did not perform an inventory of personal property in fiscal year 2018 as required by the CG's Reporting Policies and Procedures Manual and State law.

Management's Response

DHEC agrees with the findings.

The finding for the Other Receivables Reporting Package was an administrative error due to the complex process used to access the data for the reporting package. The data is contained in multiple legacy account receivables systems which use three separate chart of accounts with no integration of related data. These legacy applications have no end user reporting capabilities and cannot be modified due to the age of the software and lack of tech support. We will develop better standard operating procedures and train multiple staff prior to the next reporting cycle.

Regarding the finding for not performing an inventory of personal property, the Asset Custodian, Dennis Reddy, responded that the FY18 Asset Audit was not completed because the Agency was transitioning to a new electronic inventory tracking module for Information Technology equipment.

Composite Reservoir Accounts

13. Obtain two haphazardly selected monthly reconciliations and bank statements for the WIC composite reservoir account and 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.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
 - Inspect the bank statements and confirm there are no unusual transactions.

We found no exceptions as a result of the procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

14. 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

15. 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.
16. 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.

We found no exceptions as a result of the procedures.

Appropriation Act

17. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
18. Confirm compliance with five haphazardly selected Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

Finding

See finding regarding inventory of personal property at **Reporting Packages**.

Minutes

19. Inspect the Board's approved minutes beginning with the end date of prior year fieldwork (6/15/18) through the end of our fieldwork.

We found no other matters related to our procedures.

Status of Prior Findings

20. 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, except where noted in **Payroll** above.