

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

**STATE AUDITOR'S REPORT**

**JUNE 30, 2019**



## Independent Accountant's Report on Applying Agreed-Upon Procedures

April 27, 2020

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), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. 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 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.

George L. Kennedy, III, CPA  
State Auditor

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

**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: Earmarked Fund: General Ledger (G/L) Accounts 4470010000 and 4350050094 (fund 37570001); Restricted Fund: G/L Accounts 4530040000 and 4890060000; and Composite Fund: G/L Account 4660010000.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
  - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, and account classification.
  - 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.

We found no exceptions as a result of the procedures.

**Cash Disbursement/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 \$1,200,000 and 10% for the General Fund, \$115,000 and 10% for the Federal Fund, and \$1,000 and 10% for the Composite Fund.
4. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
  - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, 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.
  - The disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
  - The disbursement is recorded in the proper fiscal year.
  - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures selected, 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. 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 \$1,000,000 and 10% for the Earmarked Fund and \$115,000 and 10% for the Federal Fund.
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 fifteen employee payments and inspect supporting documentation during the fiscal year to:
  - 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.

### For Salaried Employees:

- Agree gross pay to supporting documentation to confirm all changes to gross salary for the year. Determine that all changes have been properly approved.

### For Hourly Employees:

- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll system in accordance with the Department's policies and procedures and that the employee's final paycheck, including leave payout, was properly calculated in accordance with applicable State law.
10. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll system in accordance with the Department's policies and procedures and that their first paycheck was properly calculated in accordance with applicable State law.
11. Haphazardly select fifteen 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 bonus payment agreed to supporting documentation and was properly justified in accordance with Department policy.
  - The bonus payment was approved by the appropriate supervisor.

## **Payroll (Continued)**

### **Findings**

Similar to the finding reported in the prior year, a recording error in the payroll system resulted in a discrepancy of approximately \$20 for one termination payment inspected.

One of the fifteen selected bonus pay disbursements was paid to an employee whose total bonuses received during the fiscal year exceeded \$3,000.

### **Management's Response**

HR/Payroll acknowledges the \$20 error for one termination payment. In our review, it appears that the error was a human error in keying the amount. We are working to provide a better check and balance process to mitigate this.

Regarding the overpayment of a bonus, this again occurred due to human error. It appears that there was confusion, which has now been clarified, as to the period bonus amounts should be tracked, whether calendar year or fiscal year. Going forward, staff have been informed that the period for tracking is fiscal, not calendar.

### **Journal Entries and Transfers**

12. Haphazardly select twelve 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**

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 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 records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations. Furthermore, determine if the Department's petty cash accounts were properly authorized by the Office of the State Auditor.
  - Other Receivables Reporting Package

Determine if reported amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting – Accounts Receivable Current with Customer report and/or Department prepared records. In addition, haphazardly select ten receivables to determine if the amounts were properly classified and calculated.

## Reporting Packages (Continued)

- 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, agree the future minimum lease payments reported on the Future Minimum Lease Payment Schedule to the prior year schedule. Finally, haphazardly select fifteen leases and confirm a copy of the lease was properly submitted to the CG in accordance with the reporting package instructions.

- Accounts Payable Reporting Package

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, SCEIS Yearend Reporting – Interagency Prior Year Payables, 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 identified, classified, reported and excluded from the original Accounts Payable Reporting Package submission.

## Findings

Due to errors identified in the Department's process of accumulating receivables, the reported receivables balance on the Other Receivables Reporting package was understated by approximately \$1.7 million.

The Department submitted the Operating Leases Reporting Package one business day late.

## Management's Response

Division of Financial Services (DOFS) acknowledges a formula error on our excel spreadsheet for the Other Receivables Reporting package. We have corrected the formula and will work to ensure all formulas are reviewed carefully before submitting any future reporting packages.

DOFS acknowledges a one day late submission of the Operating Lease Reporting Package because the Department was waiting on a reconciliation of leases from one of our vendors, Ontario. DOFS wanted to ensure all leases were accounted for before submitting. The Department did notify the CG that we would be submitting one day late.

## Composite Reservoir Accounts

15. Obtain a listing of Department composite reservoir accounts and confirm with management that the listing is complete.
16. Obtain fiscal year monthly reconciliations for each composite reservoir account and, for ten haphazardly selected 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.

## **Composite Reservoir Accounts (Continued)**

- 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 ten composite reservoir account receipts to determine if each receipt is properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, is recorded in the proper fiscal year, and any revenue collection and retention or remittance is supported by law.
18. Haphazardly select and inspect ten composite reservoir account disbursements to determine if each disbursement is properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, is a bona fide expenditure of the Department, was paid in conformity with State laws and regulations, and goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

## **Capital Assets**

19. 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 instructions.
20. 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 that the asset was properly removed from the Department's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual instructions.

We found no exceptions as a result of the procedures.

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

21. Select all controls identified through the SCEIS GRC system that were in place during fiscal year 2019 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

## **Appropriation Act/Laws**

22. Confirm compliance with South Carolina Code of Laws 10-1-140 through observation and/or inspection of the Department's annual personal property inventory documentation.
23. Confirm compliance with Proviso 117.13 by observing management's submission documentation to the State Human Affairs Commission.
24. Confirm compliance with Department-specific Provisos 35.1, 35.3, 35.4, and 35.7 by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

## **Permanent Improvements**

25. Confirm proper monitoring and reporting of the Department's permanent improvement activity through inspection of the State of South Carolina Comprehensive Permanent Improvement Plan, Summary of Permanent Improvement Projects applicable to the Department, and management inquiry.

We found no exceptions as a result of the procedures.

## **Accounting Policies and Procedures**

26. Obtain and inspect the Department's updated Human Resources/Payroll procedures and, if applicable, any additional accounting policy/procedure updates to ensure the most current information is applied during all applicable agreed-upon procedures.

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

## **Status of Prior Finding**

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

The finding reported in the prior year engagement is repeated as described in the Payroll finding above.