

State of South Carolina



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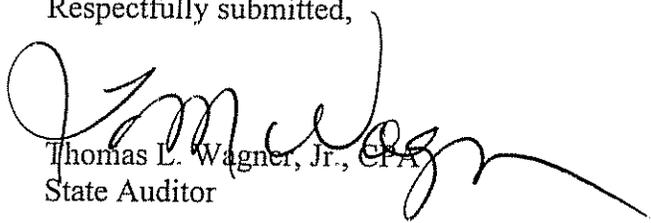
July 11, 2005

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Department of Mental Health
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Mental Health for the fiscal year ended June 30, 2004, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

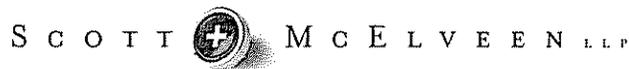

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

South Carolina Department of Mental Health
Independent Accountants' Report on
Applying Agreed-Upon Procedures
for the year ended June 30, 2004

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA
 State Auditor
 State of South Carolina
 Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Board of Trustees and management of the South Carolina Department of Mental Health (the "Department") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the accounting records of the Department for the fiscal year ended June 30, 2004, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the State Auditor. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

CERTIFIED PUBLIC ACCOUNTANTS

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The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Sections A and B in the Accountants' Comments sections of this report.

2. Non-Payroll Disbursements and Expenditures

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. Payroll Disbursements and Expenditures

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures to those of the prior year; and compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

Our findings as a result of these procedures are presented in Section B in the Accountants' Comments sections of this report.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

Our findings as a result of these procedures are presented in Section B in the Accountants' Comments sections of this report.

5. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger, and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

Our findings as a result of these procedures are presented in Section B in the Accountants' Comments sections of this report.

6. Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Department's accounting record to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amount to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments sections of this report.

7. Compliance

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of Department personnel and or observation of Department personnel performing their assigned duties, the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2004.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments sections of this report.

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2004, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

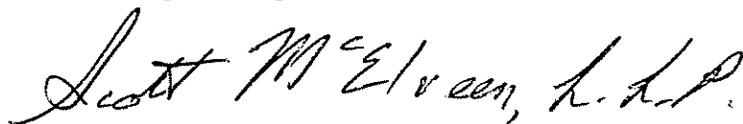
10. Status of Prior Findings

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2002, to determine if adequate corrective action has been taken. (We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2002.)

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, the Board of Trustees, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Columbia, South Carolina
June 22, 2005

SECTION A – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS

The procedures agreed to by the Department require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing internal controls. A material weakness is a condition in which the design or operation of one of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described below have been identified as weaknesses subject to correction or improvement and are considered material weaknesses and/or violations of State Laws, Rules, or Regulations.

Proper Training and Information Technology Assistance Relating Accounting Software

Based on our general ledger testing, it was apparent that the Department's management and staff were not given the proper training or resources to utilize the new SAP accounting software. Because of this, the Department's management and staff cannot extract the proper data and/or reports in order to perform some daily and monthly accounting functions.

We recommend that the Department obtain further training and additional information technology resources in order to use the accounting software to its fullest capabilities.

Since implementation of the new SAP accounting software and throughout fiscal years 2004 and 2005, the Department's management, along with the South Carolina Office of the Comptroller General, has recognized and continues to address the issues relating to the new software. See management's response to this comment on pages 8 & 9.

Untimely Deposit of Receipts

From our receipts testing, it was revealed that 1 receipt out of the 25 tested for fiscal year 2004, and 1 receipt out of 10 tested in regards to our cut-off testing for fiscal year ending 2004 and fiscal year beginning 2005, were not deposited within 7 days after receipt. From these circumstances, there is a possibility of misappropriation and/or loss of receipts, and this is a violation of State Law.

We recommend that the Department develop and implement control procedures to strengthen internal controls over cash receipts and revenues to ensure that all receipts are deposited within seven days in accordance with State Law.

Reconciliations

Our testing of monthly reconciliations for receipts, and disbursements revealed that the Department had not performed any of the monthly reconciliations for fiscal year 2004 with regards to receipts and disbursements. Due to staff and management difficulties with the implementation of the new SAP accounting software, this has resulted in differences between the subsidiary ledgers and general ledger reports on a monthly basis.

We recommend that the Department obtain the necessary reports and outside information technology assistance, in order to develop the proper reports within the accounting software, in order to successfully perform the monthly reconciliations.

Since implementation of the new SAP accounting software and throughout fiscal years 2004 and 2005, the Department's management, along with the South Carolina Office of the Comptroller General, has recognized and continues to address the issues relating to the new software. See management's response to this comment on pages 8 & 9.

SECTION B – OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement, but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

Written Receipts for School-Based Services and County Appropriations

From our receipts testing, it was revealed that 1 receipt out of the 25 tested for fiscal year 2004 and 1 receipt out of 10 tested in regards to our cut-off testing for fiscal year ending 2004 and fiscal year beginning 2005, were not written for school-based or county appropriations.

We recommend that the Department develop and implement control procedures to strengthen internal controls over cash receipts and revenues to ensure that receipts are recorded and documented appropriately.

Personnel Files

Our examination of personnel files disclosed that 3 out of the 25 personnel files tested did not contain signed employee retirement enrollment forms. Good internal controls require that employees' personnel files contain signed documentation by employees supporting all voluntary payroll withholdings.

We recommend that the Department periodically monitor the contents of each employee's personnel file to ensure that all pertinent and timely material is within each personnel file.

Abuse of Travel Reimbursement Policy

Based on our examination of some of the Department's journal entries, it was found that a Department employee had abused the Department's Travel Reimbursement Policy. One of the journal entries selected for testing displayed an explanation which could not be clearly ascertained from the supporting documents. Upon further inquiry it was noted that the entry's purpose was to record reimbursement from an employee to the Department relating to excess mileage reimbursement claimed by the employee. The cause for this was an oversight of the employee's immediate supervisor approving the travel documents.

We recommend that all employee travel reimbursements be more thoroughly reviewed to avoid any future abuses from occurring in this area.

SECTION C – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of the corrective action taken on the findings reported in the Accountant's Comments Section of the State Auditor's Report on applying agreed upon procedures for the fiscal year ended June 30, 2002, and dated June 3, 2003. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2002. We determined that the Department has taken adequate corrective action on each of the findings.



South Carolina
Department of
Mental Health

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George P. Gintoli
State Director of Mental Health
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MISSION STATEMENT

To support the recovery of people with mental illness.

July 7, 2005

Scott McElveen, LLP
P.O. Box 8388
Columbia, SC 29202

Dear Madam/Sir:

Pursuant to your request, this letter is in response to audit comments contained in the audit report of Agreed-Upon Procedures for the year ended June 30, 2004. The headings shown below correspond to the same comment headings contained in your report.

Proper Training and Information Technology Assistance Relating Accounting Software

One objective of the DMH "pilot" implementation of SAP was to identify areas to be considered and acted upon when implementing the software as a statewide enterprise system. One of the areas identified that could have a significant impact on a statewide rollout of SAP was the area of training and change management. Some of the SAP training materials utilized by DMH were of a more generic nature than specific to the functionality of the system to be used by DMH. The South Carolina Enterprise Information System (SCEIS) project team, led by the Comptroller General's Office and the State CIO, is implementing a concentrated focus on training and change management for the statewide implementation and is assembling a team of persons dedicated to training and assisting end users in the software configured for their use. Concentrated training is essential to manage resistance to change and teach end users the functionality they are to use.

Untimely Deposit of Receipts

Department of Mental Health policies have required timely deposit of cash receipts for many years. The timely deposits requirement is also taught in the DMH Cashier Training courses. We will again emphasize to DMH cashiers and administrators the need to timely deposit cash receipts.

Reconciliations

We agree with the audit comment that the Department of Mental Health did not perform monthly reconciliation's of revenues and expenses as required by the Comptroller General's STARS manual. While the implementation of the new financial system (SAP) also occurred during this time period, the Comptroller General's Office and the State CIO were aware of the problems encountered in this area and actively assisted DMH in this endeavor. Also, during the fiscal year under examination, several experienced and long term financial employees terminated placing additional work requirements on the

remaining staff. While locating and hiring of experienced replacements was most difficult, an individual has now been hired to prepare these reconciliation's.

Reconciliation's are necessary as each agency must reconcile their separate financial records with other similar but separate financial records maintained by the Comptroller General. It should be noted that when the Comptroller General begins utilizing the SAP financial system, many of the required reconciliation's will no longer be necessary. Currently the South Carolina Enterprise Information System (SCEIS) is scheduled to go live for central government in Fiscal Year 2006-07, DMH will be upgraded to SCEIS in Fiscal Year 2007-08. Upon completion DMH and the Comptroller General will be using the same financial data base.

In the interim we will continue efforts to keep reconciliation's current and are in the process of training new staff to assist with this effort.

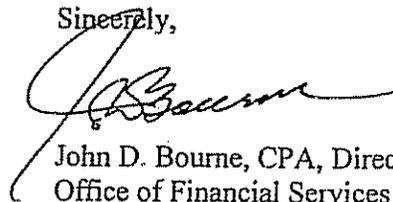
Written Receipts for School-Based Services and County Appropriations

Personnel Files

Abuse of Travel Reimbursement Policy

For the above three comments, we will advise the appropriate areas of DMH that 1) receipts must be written for School-Based Service and County Appropriations, 2) signed employee retirement enrollment forms must be included in personnel folders, and 3) supervisors must more thoroughly review travel reimbursements for appropriateness.

Sincerely,



John D. Bourne, CPA, Director
Office of Financial Services

JDB/lwf