

State of South Carolina



Office of the State Auditor

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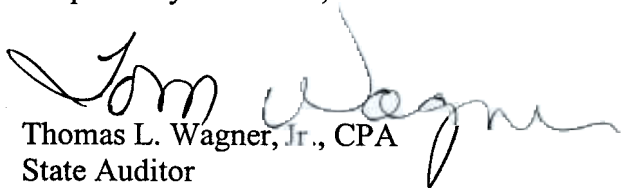
March 7, 2002

The Honorable Jim Hodges, Governor
and
Mr. William Prince, Director
South Carolina Department of Health and Human Services
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 Health and Human Services for the fiscal year ended June 30, 2001, was issued by Rogers & Laban, PA, 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

TLWir/kss

SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

COLUMBIA, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 2001

SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S 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 enumerated below, which were agreed to by the management of the South Carolina Office of the State Auditor and management of the South Carolina Department of Health and Human Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2001, in the areas addressed. Management is responsible for the Department's financial records, internal controls and compliance with applicable laws, rules and regulations. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. 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 We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 from sources other than State General Fund appropriations to those of the prior year; and, using other procedures, we tested the reasonableness of collected and recorded amounts for certain revenue categories by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
2. We tested selected recorded non-payroll, non-Medicaid disbursements to determine if these disbursements were properly described and classified in the accounting records; were bona fide disbursements of the Department; if the acquired goods and/or services were procured and paid in conformity with State laws and regulations, and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll, non-Medicaid 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 on various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

3. We tested selected recorded Medicaid 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 and Federal laws and regulations and if accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested selected 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 also tested 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 on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures, such as, comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of these procedures.
5. We tested 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. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We tested 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 accounting controls over the tested transactions were adequate. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2001, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (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, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined that 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. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
8. We tested 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 2001. We found no exceptions as a result of these procedures.

9. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of our report on the Department resulting from our engagement for the year ended June 30, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Section B of the Accountant's Comments.
10. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the Department and submitted to the State Comptroller General. We reviewed 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. Our findings as a result of these procedures are presented in Comments 1 and 2 in Section A of the Accountant's Comments section of this report.
11. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2001, prepared by the Department and submitted to the State Auditor. We reviewed 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. 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 and the users specified in paragraph one of this report and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Rogers + Lalan, PA

November 15, 2001

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 2001**

SECTION A - WEAKNESSES NOT CONSIDERED MATERIAL

The procedures agreed to by the Office of the State Auditor and 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 Department is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more 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 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.

1. CLOSING PACKAGE LIABILITY FOR COMPENSATED ABSENCES

Our testing of the amounts of accrued leave of 25 employees included in the schedule of compensated absences disclosed that one was incorrect. One employee took annual leave the last month of the fiscal year and the leave time did not get posted to the annual leave report until the fourth month of the next fiscal year. This resulted in an overstatement of 27.50 hours of leave time. A similar finding was cited in the prior year's Accountant's Comments.

Section 3.17 of the GAAP Closing Procedures Manual states that the schedule for compensated absences shall include the accumulated accrued unused annual leave earned by its employees which is the **actual** annual leave balance in the Department's records for each employee at June 30.

We recommend that all leave slips be posted timely to the leave records. Also, should leave taken not be timely posted at fiscal year end, the Department's schedule of compensated absences should be manually adjusted for leave taken on or before June 30 that was posted to the leave system in the next fiscal year. Accrued leave balances should be reviewed for accuracy by a responsible supervisor.

2. CLOSING PACKAGE LIABILITY FOR NONCANCELABLE OPERATING LEASES

Our testing of 4 of the operating leases in the closing package for noncancelable operating leases disclosed that all four did not have properly completed lease registers. The lease registers did not properly classify amounts for future minimum lease payments and executory cost. Accessories purchased as part of the copier leases were included in the net minimum executory cost portion of future obligations instead of being allocated between net minimum lease payments and net minimum executory cost. A similar finding regarding errors in lease register information was cited in the prior year's Accountant's Comments.

Section 3.19 of the GAAP Closing Procedures Manual states that the agency must properly allocate 1/3 of the cost to executory cost.

We recommend that each lease the agency purchases accessories within the lease agreement properly allocate cost to 1/3 net minimum executory cost and 2/3 to net minimum lease payments.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of our report on applying agreed-upon procedures to the financial records and internal controls of the Department for the fiscal year ended June 30, 2000, dated January 30, 2001. The following deficiencies described in the prior year's report were not repeated: journal entries not being properly approved, reviewed or signature and date of preparer. However, we have described similar findings in Section A regarding the failure to reduce leave balances for all leave taken in the current fiscal year and errors in the preparation of lease registers.



State of South Carolina
Department of Health and Human Services

Jim Hodges
Governor

William A. Prince
Director

March 6, 2002

Mr. Barry S. Laban, CPA
Rogers & Laban, PA
1529 Hampton Street
Columbia, South Carolina 29201

Dear Mr. Laban:

We have reviewed the findings from the Agreed Upon Procedures Report and discussed recommendations with appropriate staff. We will revise procedures as necessary.

If you have any questions regarding this response, please call 898-2675

Sincerely,

A handwritten signature in black ink, appearing to read "R M Kerr".

Robert M. Kerr, CPA
Chief Financial Officer

RMK/dvp