

State of South Carolina

Office of the State Auditor

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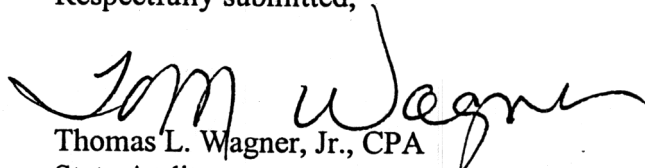
March 22, 2001

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, 2000, 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

TLWjr/kss

SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 2000

SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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 described 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, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with 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 with 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; were 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. 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 that 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. Our finding as a result of these procedures is presented in Comment 1 in Section A in the Accountant's Comments section of this report.
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, 2000, 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 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. 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 2000. We found no exceptions as a result of these procedures.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, 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 2 and 3 in Section A of the Accountant's Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, 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.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, 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, South Carolina Office of the State Auditor and the Director and management of the Department and is not intended to be and should be used by anyone other than these specified parties.

*Roger * Lalan, PA*

January 30, 2001

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 2000**

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 JOURNAL ENTRY DEFICIENCIES

Our tests of 25 journal entries disclosed there was no evidence that they were reviewed and approved. Also, all of the 25 journal entries tested did not document who the preparer was.

Good accounting and internal control procedures require journal entries to be reviewed and approved by a responsible supervisor for accuracy and propriety before they are posted to the accounting records. Also, each journal entry should contain the signature and dates of preparation/review.

We recommend that procedures be implemented to ensure that each journal entry has evidence of supervisory review and approval by a responsible employee other than the preparer. Also, the journal entry should be signed and dated by both the preparer and the reviewer.

2. 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 first month of the next fiscal year. This resulted in an overstatement of 19.50 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.

3 CLOSING PACKAGE LIABILITY FOR NONCANCELABLE OPERATING LEASES

Our testing of 5 of the operating leases in the closing package for noncancelable operating leases disclosed that all five did not have properly completed lease registers. A lease register is used for each lease to determine if it is an operating or capital lease and to support the information reported in the closing package. The lease registers did not reflect the correct amounts for future minimum lease payments, the correct dates of the last payments and in one instance, the correct monthly payment amount. A similar finding regarding errors in lease registration 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 retain a fully completed lease register for each of its leases and that the agency complete the lease register form at the inception of each lease to help ensure that the lease is properly classified as capital or operating.

We recommend that at inception of each lease the agency correctly fill out a lease register and that a responsible supervisor review it to ensure all required information is entered correctly and that the lease is properly classified as an operating or capital lease. All lease registers should be retained and used in preparation of the lease closing packages. The reviewer of the leases closing packages should be someone other than the preparer and should reconcile information on the closing packages to that on the lease registers.

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, 1999, dated December 10, 1999. The following deficiencies described in the prior year's report were not repeated: use of the incorrect annual leave accrual rates based on years of State service; errors in valuation of leave balances; failure to prepare and retain lease registers for each lease; failure to maintain accurate records of the Agency's vehicles under lease and those determined to be surplus; and errors in allocation and classification of expenditures. 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.



ATTACHMENT A

State of South Carolina
Department of Health and Human Services

Jim Hodges
Governor

William A. Prince
Director

March 16, 2001

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 898-2500.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jenny".

Virginia T. Butler, CPA
Interim Deputy Director

VTB/w

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