

July 6, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Health and Environmental Control
South Carolina Department of Health and Environmental Control
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Health and Environmental Control for the fiscal year ended June 30, 1998, 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/cwc

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

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 1998

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

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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 described below, which were agreed to by the management of the South Carolina Office of the State Auditor and the South Carolina Department of Health and Environmental Control (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1998, 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. 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 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 and if the internal controls over the tested disbursement transactions were adequate. We also tested 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 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 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 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 with those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and, computing the percentage distribution of fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll 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 the procedures.
4. 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.
5. 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.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1998, 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 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 STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in comment 5 in the Accountant's Comments section of this report.
7. 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 1998. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Comments section of the report on applying agreed-upon procedures on the Department resulting from the State Auditor's engagement for the fiscal year ended June 30, 1997 dated April 23, 1998 to determine if adequate corrective action has been taken. The deficiencies noted were corrected except as noted in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, 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 1-4 in 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, 1998, 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 Board and Management of the Department and is not intended to be and should be used by anyone other than these specified parties.

Columbia, South Carolina
June 29, 1999

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

**ACCOUNTANT'S COMMENTS
JUNE 30, 1998**

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

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 control. A material weakness is a condition in which the design or operation of one or more of the specific internal control components do 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 material weaknesses or violations of State Laws, Rules, or Regulations.

1. FIXED ASSETS

Our tests disclosed the following deficiencies regarding fixed assets:

A. FIXED ASSETS OVERSTATED

The construction in progress additions amount in the Department's Closing Package included \$3,643,919 for expenditures which were for three beach renourishment projects (Horry, Colleton, and Georgetown counties) and two small renovation projects at properties not owned by the Department. The fixed asset total was overstated \$3,643,919 because these expenditures were not qualified fixed assets owned by the Department.

Generally accepted accounting principles require that assets be owned by an entity to be included in fixed assets. Also, Section 3.10 of the GAAP Closing Procedures Manual prepared by the Comptroller General provides similar guidance regarding the inclusion of fixed asset additions.

We recommend that the Department adhere to guidelines included in the GAAP Closing Procedures Manual as to capitalization of assets and that non-capital expenditures not be included as additions in the Closing Package.

B. PROPRIETARY FUND ASSETS NOT SEGREGATED

The Department had \$42,235 in fixed assets which were identified as being assets of the Proprietary Fund. These fixed assets were included in the general fixed assets group total. The proprietary fund section of the closing package was not completed.

Generally accepted accounting principles as well as the instructions included in Sections 3.8 and 3.9 in the GAAP Closing Procedures Manual require proprietary fund assets (subfund 3480) to be segregated.

We recommend that the staff person responsible for preparing the Closing Package be advised to segregate fixed assets in accordance with instructions included in the GAAP Closing Procedures Manual.

2. COMPENSATED ABSENCES DEFICIENCY

The Closing Package for the Department included unused holidays compensatory time with overtime compensatory time. These two types of time are supposed to be separated on the Closing Package. The Department's software program does not include an identifier to separate holiday time from overtime time. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Section 3.17 of the GAAP Closing Procedures Manual prepared by the Comptroller General requires holiday compensatory time and overtime compensatory time to be listed separately.

We recommend that the Department make necessary programming changes so that holiday and overtime compensatory time may be separately identified and monitored.

3. INVESTMENT BALANCES

For one investment account, the Department included in its Closing Package the same amount for the "Reported Amount" and the "Fair Value Amount". The reported cost amount of the investment was understated by \$11,687.

Section 3.1 of the GAAP Closing Procedures Manual requires that both the reported amount (cost) and the fair value be included for investments.

We recommend that the GAAP Closing Procedures Manual be followed in the preparation of the Department's closing package.

4. GRANT/ENTITLEMENT DEFERRED REVENUE

The Department omitted from its schedule supporting the grant/entitlement receivables and deferred revenue closing package \$773,960 in accounts payable for the WIC program. Also, the \$10,073,495 reported for deferred revenue in the closing package included \$231,013 which represented excess revenue credits from cost reimbursement grants in error. These two deficiencies resulted in grant/entitlement deferred revenue being overstated by \$1,005,009 and revenues realized being understated by a like amount. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Section 3.3 of the GAAP Closing Procedures Manual states the grant revenue is recognized based on incurred costs, including accounts payable.

We recommend that the Department's personnel prepare an accurate and complete schedule of grant revenues due and deferred.

5. RECONCILIATIONS OF BALANCES

The monthly reconciliation tested by us required two correcting journal entries to be made. These entries were made by the Department after the need was brought to its attention. One journal entry correction was to remove an entry that had been made twice by the Department and needed to be removed and the other journal entry correction was to reverse a journal entry made in error.

Good accounting and internal control practices dictate that reconciling items be reviewed every month and follow-up be made on a timely basis for all open items, especially those from prior periods.

We recommend that all reconciling items appearing on the monthly reconciliations be reviewed for aging and those that are not for the current month be investigated with reasons recorded with the reconciliation for any item over 30 days old.

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 Comments section of the State Auditor's Report on applying agreed-upon procedures on the Department for the fiscal year ended June 30, 1997, dated April 23, 1998. The deficiencies were corrected except as noted in comments 2 and 4.

MANAGEMENT'S RESPONSE

Attachment A

July 6, 1999

Mr. Bob Rogers, CPA
Rogers & Laban, PA
P.O. Box 124
Columbia, SC 29202

Re: Agreed Upon Procedures Audit for Fiscal Year 1998

Dear Mr. Rogers:

We have received your findings and offer the following responses:

Condition: Per the Generally Accepted Accounting Principles closing package reported value of cash at market value as opposed to cost.

Recommendation: Closely follow the instructions in the GAAP closing package, so that all values (cost and fair market value) are reported properly.

Response: We concur with the recommendation. The instructions of all Closing Packages will be reviewed and followed by all preparers. All reviewers of the Closing packages will pay closer attention to the details to ensure compliance with instructions.

Condition: The Schedule of Federal Financial Assistance was dated December 15, 1998 to include all adjustments and the Grants/Entitlement Receivables Closing Package was completed on October 15, 1998, so the closing package does not include all adjustments. Per David Glenn at the State Auditor's office the revised closing package was not necessary due to the lateness in the year. Also as noted by us and Deloitte & Touche, LLP the closing package omitted \$773,960 in accounts payable under WIC, which overstated deferred revenue.

Recommendation: Carefully read the instructions in the GAAP closing package. The closing package states the Schedule of Expenditures of Federal Awards should reconcile with the final closing package.

Response: While the Department normally reconciles all closing packages to the Schedule of Federal Financial Assistance and the General Ledger and whereas the Department normally has its books of records reconciled and balanced well in advance of the due date of the Grant/Entitlement Receivables Closing Package, fiscal year 1998 was an anomaly to the norm. We are well aware of this requirement and that is specifically why we contacted the State Auditor's Office for guidance.

Condition: On the reconciliation of the Comptroller General's books with the Agency books two correcting journal entries were not made until the audit staff requested the supporting documentation. One of the entries was recorded twice on the Agency books in fiscal year 97 and 98 and needed to be removed. The other entry was a correcting entry made in error and needed to be reversed.

Recommendation: After the reconciliation of the agency's books with the Comptroller General is prepared and reconciling items are identified, then someone needs to verify that the reconciling entries are prepared and correct.

Response: The Department concurs with this recommendation. The reconciliation process has been reviewed and updated to ensure proper checks and balances are in place in order to assure future compliance.

Condition: The Department did not separate holiday comp time from overtime comp time on the compensated absences summary form closing package.

Recommendation: The Department should make necessary programmatic changes so that holiday and overtime comp time may be separately identified.

Response: We concur with the finding. However, we were not able to modify our leave program to separately identify holiday and overtime compensatory time. The Agency planned to use the Office of Human Resources Leave System in order to track holiday compensatory time separately, but the cost was prohibitive. We have contacted other agencies of comparable size to learn how they are tracking holiday compensatory time. The agencies are using a manual log at the local level to separate holiday compensatory time from regular overtime. We plan to develop a log to use within the agency at the local level.

Condition: Land and construction in Progress booked as assets when DHEC did not have ownership to the assets.

Recommendation: Closely follow the instructions in the GAAP closing package which states the agency should maintain records to support additions, items listed include the assets book value, date asset received, amount paid for asset, etc.

Response: The Department concurs with this recommendation and will ensure compliance in future reporting periods. All permanent improvement projects for activities such as Beach Re-nourishment will be recorded as expenses rather than assets if the Department does not gain or retain title to the property.

Condition: Fixed asset additions reconciliation form does not reflect proprietary fund expenditures separately.

Recommendation: Closing package Appendix A-2 states that subfund 3480 is a Propriety fund type. In the future the chart on Appendix A-2 needs to be referenced in order to classify items correctly in the closing package.

Response: The Department concurs with this recommendation and will take appropriate steps to ensure funds are properly classified in the future reporting periods.

If we can be of any further assistance, then please let us know.

Sincerely,

John T. Watson, CPA
Director of Finance