

April 5, 1999

The Honorable James H. Hodges, Governor
and
Dr. J. Samuel Griswold, 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 of the South Carolina Department of Health and Human Services 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/sj

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES
STATE OF SOUTH CAROLINA**

COLUMBIA, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 1998

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES
STATE OF SOUTH CAROLINA**

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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 management of the South Carolina Office of the State Auditor and the South Carolina Department of Health and Human Services, State of South Carolina (the Department), solely to assist you in evaluating the performance of the Department in the areas addressed for the fiscal year ended June 30, 1998. 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 South Carolina Office of the State Auditor and the Department. 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 25 randomly selected recorded receipts out of a population of approximately 35,000 for the year to determine if these receipts were properly described and classified in the accounting records; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. We found no exceptions as a result of the procedures.
2. We tested 25 randomly selected recorded non-payroll, non-Medicaid disbursements out of a population of approximately 14,000 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 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.
3. We tested 35 randomly selected recorded Medicaid disbursements out of a population of approximately 300,000 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 25 randomly selected recorded payroll disbursements out of a population of approximately 16,000 to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. We found no exceptions as a result of the procedures.

5. We obtained a copy of the accompanying schedule of expenditures - budget and actual and notes thereto for the year ended June 30, 1998 prepared by the Department and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Department. We checked the schedule and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
6. 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 and reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual; 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.
7. 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 and 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.
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 1998 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1998 work program. We found no exceptions as 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 and on the effectiveness of the internal control over financial reporting described in paragraph one and procedures one through eight of this report. Accordingly, we do not express such an opinion. 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 South Carolina Office of the State Auditor and the Department and is not intended to be 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.

Columbia, South Carolina
February 25, 1999

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES
STATE OF SOUTH CAROLINA**

**NOTES TO SCHEDULE
JUNE 30, 1998**

NOTE 1. BUDGET POLICY:

The Department is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1998 Appropriation Act Proviso 72.9 as follows: Agencies shall be authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedule of expenditures - budget and actual presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller's Office titled A Detailed Report of Appropriations and Expenditures.

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES
STATE OF SOUTH CAROLINA**

**NOTES TO SCHEDULE
JUNE 30, 1998**

NOTE 2. STATE APPROPRIATIONS:

The following is a reconciliation of the 1998 Appropriation Act as originally enacted by the General Assembly to amounts available for the Department's budgetary general fund expenditures as reported on Schedule of Expenditures – Budget and Actual – All Budgeted Funds for the year ended June 30, 1998.

Original Appropriation	\$361,518,102
Supplemental Appropriation from Fiscal Year 1997 Surplus State General Fund revenues (Part III of 1998 Appropriation Act) for:	
Medicaid Program	9,387,281
Community Long-Term Care	2,000,000
Nursing Homes	4,000,000
State Budget and Control Board Allocations:	
Employee Pay Plan	160,076
Employer Contributions	20,537
Transfer for Palmetto AIDS Life Support Services from the Department of Health and Environmental Control	22,617
Transfer of Home and Community Based Waiver Services Funding to the Department of Disabilities and Special Needs	(634,616)
Transfer of funding and duties of the Division on Aging from the Governor's Office (Proviso 72.77)	2,606,711
Transfer of funding for four full-time equivalent positions to the Budget and Control Board	(34,967)
Transfer of State Funds for Child Care Development from the Department of Social Services	1,000,000
Transfer of Personal Responsibility and Work Opportunity Reconciliation Act Funding from the Department of Social Services	5,150,000
Transfer of funding for one full-time equivalent position to the Human Affairs Commission	<u>(35,000)</u>
Revised Appropriation - Legal Basis Brought Forward from Fiscal Year 1996 - 1997 (Proviso 72.44)	385,160,741
	<u>3,270,540</u>
Appropriations Available for Expenditures	<u>\$388,431,281</u>

Pursuant to Proviso 72.48 of the 1998-99 Appropriation Act, the Department carried forward \$4,960,183 of unspent State General Fund appropriations from the current year into the next fiscal year. The proviso authorized a maximum carry forward of 10% of an agency's original appropriation with certain limitations for reductions and separate carryforward authority.

NOTE 3. EXPENDITURES PAID FROM FUNDS FOR ANOTHER FISCAL YEAR:

The Department recorded approximately \$58,700,000 of case service expenditures pertaining to fiscal year 1998 in the General Fund and approximately \$124,200,000 in the Other budgeted funds as payments in fiscal year 1999. The Department received billings for these expenditures in fiscal year 1999. Adjusting entries were made to properly include these expenditures on Schedule 1. Adjusting entries to record these expenditures in the proper year resulted in the reporting of unfavorable expenditure budget variances on Schedule 1.

State law requires agencies to expend budgeted funds in strict accordance with the line-items in the Appropriation Act in the year for which appropriated unless otherwise authorized. The Department is authorized by Proviso 72.7 of the 1998-99 Appropriations Act to pay case services expenditures in the subsequent fiscal year if the billings are received after the current fiscal year is officially closed.

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES
STATE OF SOUTH CAROLINA**

STATUS OF PRIOR YEAR'S MANAGEMENT LETTER COMMENT

An engagement similar in scope was performed by us for the year ended June 30, 1998. The report on applying agreed-upon procedures contained one management letter comment on accounts payable deficiencies. We determined that the Department had taken adequate corrective actions on this finding.