

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

**COLUMBIA, SOUTH CAROLINA**

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

**JUNE 30, 2004**

# State of South Carolina



## Office of the State Auditor

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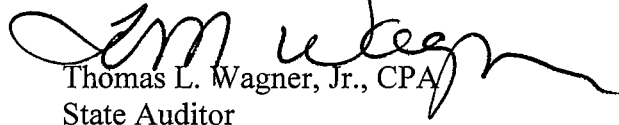
June 2, 2005

The Honorable Mark Sanford, Governor  
and  
Mr. Robert M. Kerr, 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, 2004, 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/trb

**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 described below, which were agreed to by the South Carolina Office of the State Auditor and the 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, 2004, in the areas addressed. The Department is responsible for its financial records, internal controls and compliance with State laws and regulations. The agreed-upon procedures engagement was conducted in accordance with attestations standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified parties in this 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. 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 from sources other than State General Fund appropriations with those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

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

**2. Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements including Medicaid payments, 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; if 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.



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- 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 were chosen randomly. Our finding as a result of these procedures is presented in the Accountant's Comments section of this report.

### **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 tested payroll transactions were adequate to detect errors and/or irregularities.
- We inspected 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 inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate to detect errors and/or irregularities.
- 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 compared 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 were chosen randomly. Our finding as a result of these procedures is presented in the Accountant's Comments section 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.

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

### **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 accounting controls over the selected transactions were adequate to detect errors and/or irregularities.

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

## **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 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, 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 were chosen randomly. We found no exceptions as a result of the procedures.

## **7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency 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.

We found no exceptions as a result of the procedures.

## **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.

Our findings as a result of these procedures are presented in the Accountant's Comments section of this report.

## **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 amount 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 resulting from our engagement for the fiscal year ended June 30, 2003, to determine if adequate corrective action has been taken.

One finding had not been corrected as detailed in the Status of Prior Audit Findings section of this report.

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 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 for the information and use of the Governor, South Carolina Office of the State Auditor and the South Carolina Department of Health and Human Services and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

*Roger J. Lalan, PA*

May 17, 2005

## **ACCOUNTANT'S COMMENTS**

### **SECTION A – CURRENT YEAR FINDINGS**

#### **1. CLOSING PACKAGE FOR NONCANCELABLE OPERATING LEASES**

Our testing of operating leases reported in the schedule of future minimum lease payments in the closing package for noncancelable operating leases disclosed the following:

- A. We could not determine the accuracy of the amounts reported as future minimum lease payments because of conflicts between the dates on the leases and the purchase orders. In addition, some lease agreements called for quarterly payments but they were shown as monthly payments on the purchase order and future minimum lease payments schedule.
- B. The Department did not complete the section of the lease registers used to determine whether the lease is a capital or operating lease.
- C. One lease was omitted from the schedule of future minimum lease payments.

Section 3.19 of the GAAP Closing Procedures Manual contains the requirements for the reporting of noncancelable operating leases and future minimum lease payments.

We recommend that the Department ensure that Department prepare a schedule to determine the amount of payments actually made on a lease and the remaining amount to be paid. The Department should also ensure that the lease registers are completed in their entirety and that all leases are included on the schedule.

#### **2. ERROR IN REFUNDS RECEIVABLE CLOSING PACKAGE**

Our review of the refunds receivable closing package determined that the allowance for uncollectible accounts was overstated by approximately \$122,000. This occurred because the Department took the net receivable after the allowance and then reported it net of an additional allowance for certain receivables.

Section 3.15 of the GAAP Closing Procedures Manual contains the requirements for the reporting of refunds receivable.

We recommend that the Department ensure that all amounts are reported at their correct amounts in the closing packages.

#### **3. ERRORS IN INTERFUND PAYABLES CLOSING PACKAGE**

Our review of the interfund payables closing package that consist of payables owed to other State agencies disclosed that total payables were understated by approximately \$8,200. In addition, a separate listing prepared by the Department of additional payables that were not paid by August 31, 2004 omitted two payables totaling approximately \$258,000.

Section 3.18 of the GAAP Closing Procedures Manual contains the requirements for the reporting of interfunds payable.

We recommend that the Department ensure that all amounts are reported at their correct amounts in the closing packages.



#### 4. ERROR IN EMPLOYEE'S FINAL PAYCHECK

In testing the final paycheck to terminated employees, we determined that one employee was overpaid by \$32. The hours shown on the schedule prepared by the Department did not agree with the documents in the employee's file.

We recommend that the Department determine whether the \$32 overpayment should be recovered from the employee and that additional care be taken to document the calculation of the final paychecks due to the employees.

#### 5. PROVIDER'S ENROLLMENT FORM NOT LOCATED

The Department could not provide us with an enrollment form for one provider out of twenty tested that was being paid from Medicaid funds for us to determine whether they were eligible to participate in the program.

The State policies require the provider to complete an enrollment form to determine eligibility for the program.

We recommend that the Department ensure that it has all required forms on file before payments are made under the Medicaid program.

### **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 for the fiscal year ended June 30, 2003, and dated June 24, 2004. The findings regarding the closing packages for cash and investments, the closing package for operating lease lessor, the closing package liability for compensated absence, and employer contributions charged to funds incorrectly were corrected. A finding regarding the closing package liability for noncancelable operating leases has not been corrected and is also included in the current year's findings.

# **MANAGEMENT'S RESPONSE**

## **ATTACHMENT A**



*State of South Carolina*  
*Department of Health and Human Services*

Mark Sanford  
Governor

Robert M. Kerr  
Director

June 3, 2005

Mr. Barry Laban, CPA  
Rogers & Laban, PA  
1919 Bull Street  
Columbia, SC 29201

Dear Mr. Laban:

Thank you for the opportunity to review and respond to your Independent Accountant's Report on Applying Agreed Upon Procedures for the South Carolina Department of Health and Human Services for the year ended June 30, 2004. Provided below are our comments to each of the findings in the Accountant's Comments Section of the report.

Closing Package for Noncancelable Operating Leases

The Agency will compile a complete and accurate listing of all leases applicable to this closing package. All lease documents, purchase orders, and lease registers will be compared and reconciled to assure that they contain accurate and consistent information.

Error in Refunds Receivable Closing Package

As recommended by the auditor, the Agency will modify its procedure for preparing this closing package so that only one allowance is deducted from each category of receivables.

Errors in Interfund Payables Closing Package

The Agency will implement additional procedures for preparing this closing package to ensure that all payables to state agencies are recorded correctly in the closing package. In addition the Agency will implement procedures to ensure that all payables to state agencies which were not paid prior to the normal cut-off date for preparing the closing

Mr. Barry Laban, CPA  
Rogers & Laban, PA  
June 3, 2005  
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package, but which are paid prior to the submission date of the closing package are added to the closing package before submission.

Errors in Employee's Final Paycheck

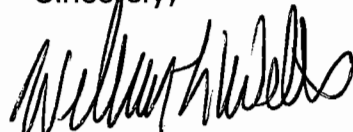
The Agency will take additional actions to assure that supervisors submit all required personnel forms on a timely basis. The Agency will implement procedures for recalculating a terminated employee's final paycheck to determine any balance due to or from the agency, should additional documentation be received after the final paycheck has been issued which affects the amount. Appropriate action will then be taken to collect any overpayment or remit any underpayment that is due.

Provider's Enrollment Form Not Located

The agency will ensure that all required forms are on file for Medicaid providers.

We appreciate the professional manner in which you and your staff conducted this engagement and for the suggestions that you provided to assist us in correcting the deficiencies identified in your report.

Sincerely,

A handwritten signature in black ink, appearing to read 'William L. Wells', written in a cursive style.

William L. Wells, CPA  
Deputy Director

WLW/h