

State of South Carolina



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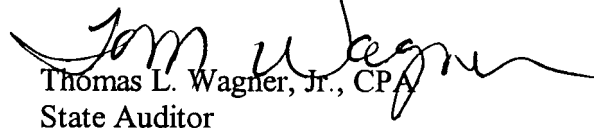
June 8, 2001

The Honorable Jim Hodges, Governor
and
Members of the Commission
South Carolina Department of Mental Health
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 Mental Health 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/cwc

SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 2000

SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH

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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 both the South Carolina Office of the State Auditor (the State Auditor) and the South Carolina Department of Mental Health (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 we used other procedures to determine 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 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 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 those in 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. Our finding, as a result of these procedures, is included in Comment 2 of the Accountant's Comments section of this report.



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, the 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 in 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 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, 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. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
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 2000. Our finding, as a result of these procedures, is presented in Comment 2 of the Accountant's Comments section of this report.

8. We obtained copies of all closing packages as of and for the year ended June 30, 2000, that were 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; the amounts were reasonable; and they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Comments 1, 2, 3 and 4 of the Accountant's Comments section of this report.
9. 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; the amounts were reasonable; and they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of these 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, the State Auditor, and the Board of Commissioners and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Lalan, PA

May 29, 2001

SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH

ACCOUNTANT'S COMMENTS JUNE 30, 2000

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

The procedures agreed to by the State Auditor and the Department require that we plan and perform the engagement to obtain reasonable assurance about whether non-compliance 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 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 material weaknesses or violations of State Laws, Rules, or Regulations.

1. ACCOUNTS PAYABLE CLOSING PACKAGE INCORRECT

Our review of the accounts payable closing package disclosed the following:

- That accounts payable, per the closing package, were overstated \$154,370 because the listing included two amounts that were not for goods and services received on or before June 30, 2000.
- That accounts payable, per the closing package, were understated \$33,369 because one invoice for goods or services received prior to June 30th was not included in the closing package listing.

Based on the deficiencies noted, it does not appear that sufficient care was taken by the employee that completed the closing package or that an adequate review was made by the supervisory staff person that approved the accounts payable closing package.

Section 3.12 of the GAAP Closing Procedures Manual (the Manual) prepared by the Comptroller General defines accounts payable as an amount due for which the Department receives the goods or services on or before June 30 and pays for them on July 1 or later. It contains guidance and instructions for the preparation of an accurate and complete closing package and requires completion of the reviewer's checklist before submitting the closing package. Also, Section 1.8 of the Manual requires the agency to assign qualified and knowledgeable employees to prepare and review each closing package and requires the reviewer to perform an effective review of each completed closing package and the underlying working papers and accounting records including tracing each amount in the closing package to the closing package working papers, to the accounting records, to the underlying supporting documentation and other original sources.

We recommend that the agency assign qualified employees who are familiar with the agency data and Manual guidance and instructions needed to complete the preparation and review of the

applicable closing packages. In addition, additional care should be exercised in preparing the accounts payable schedule and in performing the supervisory reviews of the listing and the related documentation that supports accounts payable closing package as of each year-end.

2. VIOLATION OF STATE LAW

Our test of non-payroll disbursements and our review of the accounts payable closing package disclosed six vouchers which were not paid within 30 workdays as required by Section 11-35-45 (as amended) of the South Carolina Code of Laws.

The violation appeared to occur because the invoices were not being forwarded to the Department's finance area from various centers in a timely manner. The Department's policy requires invoices/vouchers to be submitted to accounts payable at the main office within 15 workdays of the receipt of the goods or services and the vendor's invoice.

We recommend that the Department implement procedures to ensure that all invoices are paid in a timely manner.

3. FIXED ASSETS CLOSING PACKAGE DEFICIENCY

Our tests of the closing package for fixed assets disclosed that a donation of real estate with a fair market value of \$275,300 when received by the Department in the year ended June 30, 1998 was recorded in its detail fixed asset records and closing package as a fiscal year 2000 addition.

Generally accepted accounting principles require that transactions be recorded in the accounting period in which they occur. This deficiency appeared to occur because the Department's legal department did not notify the finance department of the donation and it was not included on a year-end list of land sales or acquisitions requested of its management services division.

We recommend that the Department implement procedures to ensure that all donations are recorded and reported in a timely manner. The finance department should be notified at the point in time any land is sold or acquired.

4. ACCRUED COMPENSATED ABSENCES CLOSING PACKAGE DEFICIENCY

Our tests of the closing package for accrued compensated absences disclosed that the Department could not locate all of the leave slips supporting leave taken by 4 of the 25 employees whose leave balances were tested. Because of the missing leave slips, we could not determine that the leave balances for certain employees or the Department's compensation absences balance were properly stated at the fiscal year-end. The cause of the missing leave slips was not readily determinable.

Section 3.17 of the GAAP Closing Procedures Manual prepared by the Comptroller General requires the closing package to report the actual accumulated unused leave balances by leave type at June 30 and the Department to retain supporting documentation of the balances by leave type for each employee. Also, good accounting and internal control procedures require the Department to prepare and maintain accurate records that support the year-end accrued compensated absences balance. The Department's policy manual requires time and attendance documentation to be retained for three full years.

We recommend the Department implement procedures to ensure that the leave slips supporting all leave taken are retained as required.

MANAGEMENT'S RESPONSE
Attachment A



South Carolina
Department of
Mental Health

Office of the Director
2414 Bull Street/P.O. Box 485
Columbia, SC 29202
(803) 898-8319
Information: (803) 898-8581

George P. Gintoli
State Director of Mental Health

MISSION STATEMENT

The men and women of the S. C. Department of Mental Health, in partnership with consumers, families, and their diverse communities, will assist citizens with mental disorders to improve the quality of their lives.

June 18, 2001

Rogers & Laban, PA
P.O. Box 124
Columbia, South Carolina 29202

Dear Sir/Madam:

We have reviewed Accountant's Comments and offer the following responses to each recommendation as follows:

1. Accounts Payable Closing Package Incorrect

A more thorough review of the data for completion of the year-end accounts payable closing package will be done in the future. The employee responsible for the cited deficiency has now resigned to accept other employment.

2. State Law Deficiency

Accounts Payable policies and procedures include the reference to Section 11-35-45. We will implement revisions of the current policies to include more detailed procedures concerning deadlines for submission of payment vouchers by components. We will immediately remind all departments that invoices must be submitted for payment in a timely manner.

3. Fixed Assets Closing Package Deficiency

Additional procedures have been instituted to capture information on future land donations. In addition to sending a request for donated acquisitions at year-end, we will review all A-1s and request a list of all land transactions (to include donated property) from the SCDMH Legal Office.

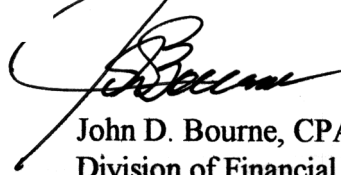
4. Accrued Compensated Absences Closing Package Deficiency

SCDMH Policies and Procedures require retention for three full years for time and attendance documentation. Employees and supervisors will be reminded that leave slips are required to be completed and submitted to the appropriate timekeeper for all employee absences.

Rogers & Laban, PA
June 18, 2001
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Timekeepers will be reminded that they are responsible for maintaining the leave slips to support all leave taken by employees for whom they keep time records.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Bourne", written over a horizontal line.

John D. Bourne, CPA, Director
Division of Financial Services

JDB:lm