

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 23, 1998

The Honorable David M. Beasley, Governor
and
The Board of Health and Environmental Control
South Carolina Department of Health and Environmental Control
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Board of Health and Environmental Control and management of the South Carolina Department of Health and Environmental Control, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1997, 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; 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. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded receipts. Our finding as a result of these procedures is presented in Deposits in the Accountant's Comments section of this report.
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 accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded non-payroll disbursements. We found no exceptions as a result of the procedures.

3. We tested selected recorded payroll disbursements 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. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded payroll disbursements. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and 100 percent of recorded appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The total of the selected journal entries was five percent of the aggregate amount of all such recorded transactions. The journal entries 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 accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. 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, 1997, 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 that necessary adjusting entries were made in the Department's accounting records or 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 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. Our findings as a result of these procedures are presented in Expenditure Cutoff, Indirect Costs, Cash Management, and Grant Accounting in the Accountant's Comments section of this report.

The Honorable David M. Beasley, Governor
and
The Board of Health and Environmental Control
South Carolina Department of Health and Environmental Control
April 23, 1998

8. We reviewed the status of the deficiencies described in the findings reported in the Auditor's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 1995, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Expenditure Cutoff in the Accountant's Comments section of this report.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto 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 schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, 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 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 Closing Packages in the Accountant's Comments section of this report.
11. We relied on the work performed during the Statewide Single Audit on the schedule of federal financial assistance submitted to the State Auditor 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 and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through eleven 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 use of the specified users 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. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Schedule of Expenditures -
Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	<u>Legal</u> <u>Basis</u> <u>Budget</u>	<u>Actual on</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 60,179,835	\$ 59,855,067	\$ 324,768
Employer Contributions	15,275,910	15,107,372	168,538
Other Operating Expenses	17,763,616	16,279,053	1,484,563
Permanent Improvements	4,368	4,368	-
Case Services	8,944,855	8,805,141	139,714
Allocations to Municipalities	-	-	-
Allocations to Counties - Unrestricted	-	-	-
Allocations to Counties - Restricted	-	-	-
Allocations to School Districts	-	-	-
Allocations to State Agencies	-	-	-
Allocations to Entities	-	-	-
Allocations to Private Sector	-	-	-
Allocation Plan Distribution	-	-	-
Aid to Counties - Unrestricted	6,800	6,800	-
Aid to Counties - Restricted	1,142,056	1,002,046	140,010
Aid to Emergency Medical Services - Regional	414,471	414,399	72
Aid to Entities	29,629	29,629	-
<i>Special Items:</i>			
Savannah River Plant	89,461	88,426	1,035
Total Quality Management	8,329	-	8,329
Sullivan's Island Project	30,000	-	30,000
Hazardous Waste Contingency Fund	104,173	-	104,173
Comprehensive Health Assessment	94,658	76,322	18,336
Burnt Gin Summer Camp	187,289	176,476	10,813
Charleston Harbor Special Area Management Plan	3,468	3,466	2
Coastal Zone Education Center	33,375	33,375	-
Family Health Center	674,760	570,925	103,835
Immunizations-Replacement of Federal Funds (1996)	3,238,949	3,140,680	98,269
Immunizations-Replacement of Federal Funds (1997)	3,863,051	3,701,943	161,108
Rape Crises Hold-Harmless	30,000	30,000	-
EQC Permit Process	1,000,000	9,390	990,610
One Stop Permitting	729,266	3,077	726,189
EQC Equipment	-	-	-
National Estuary Reserve	-	-	-
Local Health Districts	-	-	-
Total Expenditures	<u>\$113,848,319</u>	<u>\$109,337,955</u>	<u>\$4,510,364</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Schedule of Expenditures -
Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$133,869,889	\$121,809,854	\$12,060,035
Employer Contributions	30,245,401	27,963,778	2,281,623
Other Operating Expenses	94,286,308	67,808,920	26,477,388
Permanent Improvements	3,620,016	3,444,664	175,352
Case Services	80,398,631	78,514,916	1,883,715
Allocations to Municipalities	702,428	104,076	598,352
Allocations to Counties - Unrestricted	260,000	250,000	10,000
Allocations to Counties - Restricted	6,800,493	2,462,024	4,338,469
Allocations to School Districts	433,843	110,624	323,219
Allocations to State Agencies	1,405,812	125,268	1,280,544
Allocations to Entities	1,709,329	852,866	856,463
Allocations to Private Sector	48,429	3,088	45,341
Allocation Plan Distribution	118,000	30,181	87,819
Aid to Counties - Unrestricted	-	-	-
Aid to Counties - Restricted	-	-	-
Aid to Emergency Medical Services - Regional	-	-	-
Aid to Entities	-	-	-
<i>Special Items:</i>			
Savannah River Plant	500	473	27
Total Quality Management	-	-	-
Sullivan's Island Project	-	-	-
Hazardous Waste Contingency Fund	-	-	-
Comprehensive Health Assessment	-	-	-
Burnt Gin Summer Camp	-	-	-
Charleston Harbor Special Area Management Plan	1,627,721	602,366	1,025,355
Coastal Zone Education Center	-	-	-
Family Health Center	-	-	-
Immunizations-Replacement of Federal Funds (1996)	-	-	-
Immunizations-Replacement of Federal Funds (1997)	-	-	-
Rape Crises Hold-Harmless	-	-	-
EQC Permit Process	-	-	-
One Stop Permitting	-	-	-
EQC Equipment	263,688	263,687	1
National Estuary Reserve	439,239	187,995	251,244
Local Health Districts	<u>3,500,000</u>	<u>-</u>	<u>3,500,000</u>
Total Expenditures	<u>\$359,729,727</u>	<u>\$304,534,780</u>	<u>\$55,194,947</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Schedule of Expenditures -
Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal</u> <u>Basis</u> <u>Budget</u>	<u>Actual on</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$194,049,724	\$181,664,921	\$12,384,803
Employer Contributions	45,521,311	43,071,150	2,450,161
Other Operating Expenses	112,049,924	84,087,973	27,961,951
Permanent Improvements	3,624,384	3,449,032	175,352
Case Services	89,343,486	87,320,057	2,023,429
Allocations to Municipalities	702,428	104,076	598,352
Allocations to Counties - Unrestricted	260,000	250,000	10,000
Allocations to Counties - Restricted	6,800,493	2,462,024	4,338,469
Allocations to School Districts	433,843	110,624	323,219
Allocations to State Agencies	1,405,812	125,268	1,280,544
Allocations to Entities	1,709,329	852,866	856,463
Allocations to Private Sector	48,429	3,088	45,341
Allocation Plan Distribution	118,000	30,181	87,819
Aid to Counties - Unrestricted	6,800	6,800	-
Aid to Counties - Restricted	1,142,056	1,002,046	140,010
Aid to Emergency Medical Services - Regional	414,471	414,399	72
Aid to Entities	29,629	29,629	-
<i>Special Items:</i>			
Savannah River Plant	89,961	88,899	1,062
Total Quality Management	8,329	-	8,329
Sullivan's Island Project	30,000	-	30,000
Hazardous Waste Contingency Fund	104,173	-	104,173
Comprehensive Health Assessment	94,658	76,322	18,336
Burnt Gin Summer Camp	187,289	176,476	10,813
Charleston Harbor Special Area Management Plan	1,631,189	605,832	1,025,357
Coastal Zone Education Center	33,375	33,375	-
Family Health Center	674,760	570,925	103,835
Immunizations-Replacement of Federal Funds (1996)	3,238,949	3,140,680	98,269
Immunizations-Replacement of Federal Funds (1997)	3,863,051	3,701,943	161,108
Rape Crises Hold-Harmless	30,000	30,000	-
EQC Permit Process	1,000,000	9,390	990,610
One Stop Permitting	729,266	3,077	726,189
EQC Equipment	263,688	263,687	1
National Estuary Reserve	439,239	187,995	251,244
Local Health Districts	<u>3,500,000</u>	<u>-</u>	<u>3,500,000</u>
Total Expenditures	<u>\$473,578,046</u>	<u>\$413,872,735</u>	<u>\$59,705,311</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Notes to Schedules

June 30, 1997

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 1997 Appropriation Act Proviso 72.9. as follows: Agencies are 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 20 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 schedules of expenditures - budget and actual present 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 General's Office titled A Detailed Report of Appropriations and Expenditures.

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the Department's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$101,917,255
State Budget and Control Board Allocation for Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.19.)	1,721,805
Appropriations from Fiscal Year 1996 Surplus State Revenues: Part V, Section 2: Immunizations - Replacement of Federal Funds Rape Crises Hold - Harmless Kershaw Rural Health District EQC Permit Process Part VI, Section 1: One Stop Permitting	3,800,212 30,000 150,000 1,000,000 729,266
Appropriation Transfer from the South Carolina Department of Disabilities and Special Needs to Support the Program Director for Disability Prevention	38,000
Appropriation Transfer from the South Carolina State Department of Education for the Comprehensive Health Assessment Pre-School Program	94,658
Appropriation Transfers from/(to) the Department of Health and Human Services for: Primary Prevention Palmetto Aids Life Support Services	163,536 (22,617)
Appropriation Transfer to the University of South Carolina for the Kershaw Rural Health Clinic	<u>(150,000)</u>
Revised Appropriation - Legal Basis	109,472,115
Plus: 1996 Appropriation Brought Forward	<u>4,376,204</u>
Legal Basis Appropriation Available for Fiscal Year 1997 Expenditures	<u>\$113,848,319</u>

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

Proviso 72.44. of the 1996-97 Appropriation Act authorizes each agency to bring forward unspent State General Fund appropriations from the prior year into the current fiscal year up to a maximum of 10 percent of its original appropriation less any appropriation reductions for the current fiscal year. Agencies, which have separate General Fund carry-forward authority must exclude the amount brought forward by such separate authority from their bases for purposes of calculating the 10 percent carryforwards. Pursuant to this proviso, the Department brought forward \$1,024,549 from the prior fiscal year. In addition, pursuant to Part III, Section 1 of the 1996-97 Appropriation Act, the Department brought forward fiscal year 1994-95 Supplemental Appropriations of \$3,301,788 for Immunizations-Replacement of Federal Funds and \$11,538 for Midlands Rape Crises Network Rent. The Department also brought forward \$8,329 for Total Quality Management as authorized by Proviso 17A.2. of the 1996-97 Appropriation Act and \$30,000 from 1994-95 surplus State revenues for the Sullivan's Island Beach Inlet Renourishment Project as authorized by Act 146 of 1995, House Bill (H3690), Section III(B). In total, the Department brought forward \$4,376,204.

Proviso 72.44. of the 1997-1998 Appropriation Act authorizes each agency to carry forward unspent State General Fund appropriations from the current year into the next fiscal year up to a maximum of 10 percent of its original appropriation less any appropriation reductions. Agencies which have separate carry-forward authority must exclude the amount carried forward by such separate authority from their bases for purposes of calculating the 10 percent carry forwards. Pursuant to this proviso, the Department carried forward \$2,479,924 to fiscal year 1998. In addition, pursuant to Part V, Section 2 of the 1996-97 Appropriation Act, the Department carried forward fiscal year 1995-96 Supplemental Appropriations of \$259,377 for Immunizations-Replacement of Federal Funds and \$990,610 for the EQC Permit Process. Pursuant to Part VI, Section 1 of the 1995-96 Appropriation Act, the Department carried forward fiscal year 1995-96 Supplemental Appropriations of \$726,189 for One Stop Permitting. The Department also carried forward \$8,329 for Total Quality Management as authorized by Proviso 17A.2. of the 1997-98 Appropriation Act and \$30,000 from 1994-95 surplus State revenues for the Sullivan's Island Beach Inlet Renourishment Project as authorized by Act 146 of 1995, House Bill (H3690), Section III(B). Total carry-forward to fiscal year 1998 was \$4,494,429.

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Notes to Schedules

June 30, 1997

NOTE 3 - EXPENDITURES PAID FROM FUNDS FOR ANOTHER FISCAL YEAR

The Department recorded \$79,747 and \$1,673,243 of budgetary general fund and other budgeted funds expenditures pertaining to fiscal year 1997 as payments in fiscal year 1998. Of the two amounts, \$63,569 in the budgetary general fund and \$385,365 in the other budgeted funds category were for case services expenditures. Proviso 72.2. of the fiscal year 1998 Appropriation Act permits the Department to expend fiscal year 1998 appropriations for prior year case services billings received after that year has been officially closed. Also, of the \$1,696,475 in the other budgeted funds category, \$649,370 was for federal program expenditures funded on a reimbursement basis. Proviso 72.5. of the fiscal year 1998 Appropriation Act permits the Department to expend fiscal year 1998 appropriations to cover fourth quarter federal program expenditures incurred in fiscal year 1997 necessitated by the time lag of federal reimbursement.

The Department also recorded \$95,682 and \$765,151 of budgetary general fund and other budgeted funds expenditures pertaining to fiscal year 1996 as payments in fiscal year 1997. Of the two amounts, \$79,565 in the budgetary general fund and \$238,869 in the other budgeted funds category were for case services expenditures. Proviso 72.2. of the fiscal year 1997 Appropriation Act permits the Department to expend fiscal year 1997 appropriations for prior year case services billings received after that year has been officially closed. Also, of the \$765,151 in the other budgeted funds category, \$36,203 was for federal program expenditures funded on a reimbursement basis. Proviso 72.5. of the fiscal year 1997 Appropriation Act permits the Department to expend fiscal year 1997 appropriations to cover fourth quarter federal program expenditures incurred in fiscal year 1996 necessitated by the time lag of federal reimbursement.

State law requires agencies to expend budgeted funds in strict accordance with the line-items in the Appropriation Act and authorizing legislation in the year for which appropriated unless otherwise authorized.

ACCOUNTANT'S COMMENTS

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

The procedures agreed to by the agency 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 entity is responsible for establishing and maintaining an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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 an effective internal control structure.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

EXPENDITURE CUTOFF

The Department expended \$1,776,222 of 1998 appropriations for 1997 obligations as follows:

	Budgetary General Fund	Other Budgeted Funds
Case Services	\$63,569	\$ 385,365
Federal Program Expenditures Funded on a Reimbursement Basis	-	649,370
Other Expenditures	<u>16,178</u>	<u>661,740</u>
Total	<u>\$79,747</u>	<u>\$1,696,475</u>

The fiscal year 1998 Appropriation Act permits the Department to expend fiscal year 1998 appropriations for the following:

- (a) to pay for prior year case service billings received after that year has been officially closed (Proviso 72.2.), and
- (b) to cover forth quarter federal program expenditures incurred in fiscal year 1997 necessitated by the time lag of federal reimbursements (Proviso 72.5.)

Except for expenditures made pursuant to Provisos 72.2. and 72.5. as discussed above, this condition violates Section 2-7-75 of the 1976 South Carolina Code of Laws which states, "All state funds appropriated shall be used and all federal and other funds may be used for the operation of state agencies and institutions for the fiscal year for which they are appropriated or made available for use. All agencies and institutions are directed to expend state appropriated funds in strict accordance with the line item appropriations as authorized by the Budget and Control Board under its authority as set forth in the appropriations act or other provisions of law." Furthermore, Sections 1A and 2 of Part IB of the fiscal year 1997 Appropriation Act repeat these fiscal year restrictions on the use of budgeted funds to satisfy operating obligations of the fiscal year for which they are budgeted. We reported similar findings for our four previous engagements.

We again recommend that the Department continue its specific year-end procedures (e.g., soliciting invoices from vendors and notifying employees of the travel voucher cutoff processing schedule) to help ensure that funds are expended in the proper fiscal year and in compliance with all applicable provisions of state law. In addition, the Department should identify, evaluate, and implement additional procedures to eliminate the expenditure cutoff problem.

CLOSING PACKAGES

We tested the GAAP (Generally Accepted Accounting Principles) closing packages submitted by the Department to the Comptroller General's Office and found the following:

Accounts Payable Closing Package

We noted the following errors in the spreadsheet used to determine amounts to be reported on the Accounts Payable Summary Form closing package:

1. Total accounts payable was overstated by \$23,732 because seven expenditure items were inadvertently entered twice on the spreadsheet.
2. The "Equipment & capital outlay" line on the closing package was overstated \$542 because the wrong voucher was coded as equipment on the spreadsheet. The expenditure should have been included on the "Other current expenditures" line.

GAAP requires that the liability recorded for accounts payable is properly stated. The GAAP Closing Procedures Manual Reference 3.12 provides instructions for the proper completion of the closing package.

We recommend that the Department designate someone other than the preparer review the work performed to ensure that the accounts payable closing package is properly completed and that the amounts reported are correct.

Compensated Absences Closing Package

Holiday Compensatory Time

The Department did not separate holiday compensatory time from overtime compensatory time on the closing package because the program that generates the compensatory time balances does not include an identifier to delineate between holiday and overtime compensatory time.

Compensated Absences Closing Package (Continued)

Holiday Compensatory Time (Continued)

The GAAP Closing Procedures Manual instructions Reference 3.17 Page 14 require holiday and overtime compensatory time to be listed separately on the closing package. Also the Department cannot determine compliance with the Office of Human Resource regulations 19-703.06 C. 6. that states that an employee shall be authorized to observe a holiday that was worked within ninety days from the time that the Monday through Friday workweek employees observed it.

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

Annual Leave Compensatory Time

We tested 20 employee annual leave balances and found one balance to be incorrect because the Department did not record 1.75 hours of annual leave taken in a timely manner. The hours on the leave slip were recorded in the leave system on July 23, 1997 and the leave report used to prepare the Compensated Absences Closing Package was printed on July 18, 1997. Therefore the annual leave amount on the closing package is overstated \$19.

The GAAP Closing Procedures Manual reference 3.17 page 3 states that the State's policy, based on GAAP, is to record a liability on its financial statements for the value at June 30 of accumulated unused annual leave earned by employees.

We recommend that the Department establish procedures to ensure that leave slips are timely submitted and leave taken is timely recorded in the leave system.

Overtime Compensatory Time

In April 1997 the Department began using a new centralized on-line leave system for recording overtime compensatory time. We tested five employee overtime compensatory time balances (from a population of 163) and found that four were incorrect:

Employee 1 – The Department computed overtime based on straight hours worked that were outside of the normal work hours during the week rather than by determining the hours worked in excess of 40 and multiplying by time and a half. This resulted in an understatement of compensatory time by 2.5 hours and a \$28 understatement on the closing package.

Employee 2 – The Department failed to record three hours of overtime earned in the second pay period of April 1997. This resulted in a \$47 understatement on the closing package.

Employee 3 – The Department recorded 12 hours of overtime for this employee but reversed the hours when the employee was found to be in exempt status. While the report that generated the leave balances for the closing package did show that the reversal was entered, it also showed that the system had not deducted the hours from the balance. The employee used .75 of the hours leaving a balance of 11.25. Since the employee was in exempt status and therefore ineligible for overtime compensatory time, the closing package was overstated \$142.

Compensated Absences Closing Package (Continued)

Overtime Compensatory Time (Continued)

Employee 4 – When the Department began its new centralized system, it asked the users of the system to start overtime compensatory time with a zero balance while maintaining the decentralized systems until the previous compensatory time had been used up. However, the overtime compensatory time balance for this employee was added when the new system was begun. The Department was unable to provide us with documentation supporting the employee's balance of 4.25 hours.

The GAAP Closing Procedures Manual reference 3.17 page 3 states that the State's policy, based on GAAP, is to record a liability on its financial statements for the value at June 30 of accumulated unused overtime compensatory time.

We recommend that the Department train users of the system on the proper procedures for calculating and recording overtime compensatory time. We further recommend that the Department correct programming errors in the system so that information provided by the system is correct.

Grant/Entitlement Receivables Closing Package

The Department misstated amounts on the Grant/Entitlement Receivables and Deferred Revenue Summary Form closing package as follows:

1. Grant entitlement receivables were understated \$341,331 because the Department mistakenly identified some federal funds as Medicaid (earmarked funds) and therefore excluded them from the closing package.

Grant/Entitlement Receivables Closing Package (Continued)

2. Grant deferred revenue was overstated \$300,288 because the Department (a) improperly excluded \$190,732 in federal funds mistakenly identified as Medicaid (earmarked funds) and (b) mistakenly recognized \$491,020 in deferred revenue on reimbursement grants.

The GAAP Closing Procedures Manual Reference 3.3 Page 12 states that deferred revenue on reimbursement grants should not be included in the closing package. Also, GAAP requires amounts to be properly stated.

We recommend that the Department establish procedures for the preparer and reviewer to ensure proper completion of the closing package.

INDIRECT COSTS

During fiscal year 1997, the Department began charging an indirect cost rate of 4.1509% to all federal programs for earmarked funds (fund S028) spent in the Commissioner's Office and Administrative Services divisions. The Department calls this charge the "Agency Administrative Assessment." This charge is in addition to the overall indirect cost rate of 5.8% as approved by the Department's Federal cognizant agency, the U.S. Department of Health and Human Services. We found that the Department did not submit an indirect cost rate proposal (IDCRP) for their Agency Administrative Assessment to the Governor's Office for review and negotiation for approval with the appropriate federal agencies. South Carolina Code of Laws Section 2-65-70. (a) (1) states "Each agency receiving grants or contracts to which indirect costs may be charged must have an approved indirect cost rate or cost allocation plan. Agencies must prepare the indirect cost proposals and submit them to the Governor for review. The Governor must submit the proposals to the appropriate federal agencies, negotiate the agreements, and transmit approved agreements to the state agencies. The Governor, upon request, must also provide a report on the proposals to the House Ways and Means Committee or the Senate Finance Committee, or both."

We further noted that the Department did not remit to the State General Fund \$1,652,325 in indirect cost recoveries related to their Agency Administrative Assessment. South Carolina Code of Laws Section 2-65-70. (a) states "All agencies receiving federal grants or contracts must recover the maximum allowable indirect costs on those projects, subject to applicable federal laws and regulations. All indirect cost recoveries shall be credited to the General Fund, with the exception of recoveries from research and student aid grants and contracts." The Department's violation of this law does not affect amounts due to the State General Fund for indirect costs related to State Appropriations.

Although the methodology followed by the Department is reasonable, if the Department desires to continue using this methodology, approval must be obtained through the legislative process.

CASH MANAGEMENT

On two separate occasions the Department deposited rebate checks for the Women, Infants, and Children (WIC) Program in the amounts of \$1,718,828 and \$1,819,995 to the WIC administrative account causing the account to have cash balances in excess of immediate needs. The WIC administrative account is a federal account (subfund 5XXX) of the State Treasurer's Office (STO). For the period March 20, 1997 through the end of the fiscal year the STO reported for this account positive daily cash balances ranging from \$45,218 to \$3,348,433 (with a daily average cash balance of \$1,830,882). Normally WIC rebate checks are deposited to a separate bank account with NBSC that is used for the payment of redeemed WIC food instruments. However in February 1997 the STO informed the Department that the WIC administrative account had a deficit exceeding \$2 million. The Department deposited a WIC rebate check for \$1,570,515 on February 7, 1997 to help offset the deficit. Then the Department deposited another rebate check for \$1,718,828 on March 14, 1997 when the account had a deficit cash balance of approximately \$460,000. On March 29, 1997, the Department deposited a third rebate check for \$1,819,995 to the account that now had a balance of approximately \$1.7 million. The Cash Management Improvement Act (CMIA) requires States to minimize cash draws for immediate needs. Also, States are required to pay to the Federal government interest earned on any positive cash balances for federal award programs. Although WIC rebates are exempt from the CMIA, the STO does not designate between WIC federal draw and rebate funds. Therefore, the Department caused the State to lose interest earnings for the positive cash balances in the WIC administrative account. The Department should have deposited most of the second and all of the third WIC rebate checks in the NBSC account so as to keep interest earnings (interest earned on funds held in the NBSC account do not have to be paid to the Federal government). We noted that the

Department does not use the STO reports to determine cash needs because the reports are received after the federal draw is needed. The Department uses its own accounting system to determine draws by reviewing the daily cash balance plus or minus revenues and expenditures. However, the Department failed to follow its procedures during this time for reasons that could not be determined. Further, we noted that the Department does not have formal written procedures describing this process.

We recommend that the Department deposit WIC rebate funds to the STO 5XXX account only to offset any WIC cash deficit and to provide an amount sufficient to meet immediate needs and then deposit the excess to the NBSC food account so as to retain interest earnings. We further recommend that the Department prepare formal written procedures for WIC cash management.

GRANT ACCOUNTING

The Department used information from sources other than the Administrative Information Management System (AIMS), its accounting system, to prepare the Annual Close-out Report (Form FNS-227) for the Women, Infants, and Children (WIC) Program because AIMS did not properly reflect all WIC expenditures for the year. Once the Close-out Report was completed, the Department used it to adjust WIC expenditures recorded in AIMS and in the Office of the Comptroller General Statewide Accounting and Reporting System (STARS).

Part of these adjustments is attributable to the correction of the recording of all expenditures for food instruments redeemed in October, November, and December to the most recent grant, which began October 1. Some of those food instruments were actually issued under the prior grant which ended September 30. Expenditures should be recognized in the grant active when the food instruments, which are valid for three months, are issued. The breakdown of total food instruments redeemed by applicable grant was available shortly after each month-end from the contractor processing the WIC food instruments. Instead of adjusting each grant's expenditures each month, the Department included these adjustments in the net fiscal year-end adjustments posted to AIMS and STARS in July 1997. Other components of the adjustments have not been identified by the Department.

Section 3.2.3.1 of the STARS Manual states: "Each individual Federal grant constitutes a special accounting and reporting entity for which all expenditures and revenues are accumulated as a by-product of the normal accounting process."

We recommend the Department post known adjustments between grants promptly after month-end. Further, the Department should prepare federal financial reports from the accounting records and clearly identify any reconciling items between the accounting records and the reported amounts.

DEPOSITS

During our test of cash receipts we noted the following:

- a) The Department did not document the receipt date for 5 of 25 cash receipts tested. We were therefore unable to determine whether these receipts were deposited timely.
- b) The Department did not deposit timely 2 of 25 cash receipts tested. One receipt, a check for \$28, was deposited 21 days after receipt. The Department's Center for Health Promotion division initially received the check and forwarded it to the Department's Bureau of Finance for deposit. The other receipt, a check for \$679, was deposited 15 days after receipt. The Bureau of Finance, which made the deposit, received the check directly from the payor. The Department was unable to determine the cause of the late deposits.
- c) The Department has no formal written procedures in its accounting policies and procedures manual regarding the timeliness of deposits.

The situations above create a weakness in the Department's internal controls over the safeguarding of assets. Also, although the Department has no formal written procedures, the Department does have an established policy for depositing funds within five days of receipt. This policy has been promoted only through informal memoranda or verbal communication. The deposits noted in b) above are in violation with the Department's established deposit policy.

We recommend that the Department update its accounting policies and procedures manual to include formal written procedures regarding deposits. We further recommend that the Department establish control procedures to ensure that receipt dates are properly documented and that funds are timely deposited.

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 Auditor's Comments section of the State Auditor's Report on the Department for the fiscal year ended June 30, 1995, and dated March 12, 1996. We determined that the Department has taken adequate corrective action on each of the deficiencies except for the comment titled Expenditure Cutoff which we have repeated in Section A of this report.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

August 21, 1998

Mr. Edgar A. Vaughn, Jr., CPA
State Auditor
1401 Main Street
Suite 1200
Columbia, South Carolina 29201

Dear Mr. Vaughn:

We have completed our review of the findings and recommendations provided by your office for the FY 1997 Agreed Upon Procedures Audit and listed below is our response to each finding. Accordingly, we authorize the release of the report after consideration of the following comments. As requested, we have enclosed a current list of our Board members and their mailing addresses.

Expenditure Cutoff

We concur with this finding, however; as discussed in the exit conference, it is very hard for large agencies to come into full compliance with these laws. Although this is the fifth year this finding has been reported, DHEC has made significant improvements over the past four years. In addition, we have little control over when a vendor actually sends invoices to the Agency for payment and we are obligated to pay these invoices if the Agency receives satisfactory goods or services from the vendor prior to the beginning of the next fiscal year. We did implement a policy several years ago where we do not reimburse employee travel if it is not submitted within the year-end deadlines, unless there are extenuating circumstances. We will attempt to improve on our year-end procedures (e.g., soliciting invoices from vendors and continuing to notify our employees of the year-end processing schedule) to help ensure that funds are expended in the proper fiscal year.

Closing Packages

Accounts Payable Closing Package

All Closing Packages are prepared and reviewed by separate individuals. The Accounts Payable Closing Package was not an exception to this process. The reporting error on the FY97 report was caused when a spreadsheet was manually created due to the partial implementation of a new accounting system. This required the data to be extracted from two accounting systems. This error should be eliminated for future reports now that the accounting system has been fully implemented and the data can be extracted from only one general ledger.

Compensated Absences Closing Package

Holiday Compensatory Time

We have reviewed the computer program recording compensatory time. We are not able to modify the program to separately identify holiday and overtime compensatory time. When compensatory time is taken, the program is not able to distinguish from which area the leave is taken. The Agency will be using a new system developed by the Office of Human Resources (OHR), Budget and Control Board, starting in January 1999. The OHR system should allow us to separate the different types of compensatory time.

Annual Leave Compensatory Time

The Department has procedures requiring leave slips to be processed in a timely manner. Reminders are sent to Personnel and Leave coordinators throughout the year regarding the procedures and deadlines. A special memorandum is issued near the end of the year describing closeout procedures. We will continue to pursue additional controls to prevent this in the future.

Overtime Compensatory Time

A new system was established in April 1997, to track overtime compensatory time. Training has been provided to Personnel Coordinators regarding the new system. A letter explaining the new system, including examples of how to compute overtime, has been distributed. We will review the compensatory time procedure at the next Personnel Coordinators meeting in order to clarify the procedure.

Grant/Entitlement Receivables Closing Package

We agree with the recommendation and procedures have been implemented to prevent this in the future. All fund types will be properly classified in the future to ensure accurate reporting

Indirect Costs

We agree that the Agency did not include these costs in our indirect cost plan that was submitted to the Governor's office. This direction was taken only after full consultation and advice received from both the Governor's Office and yours. There has been no intent to violate the law. We also agree that this does not affect amounts due to the State's General Fund since these administrative expenditures were not derived from State Appropriations. Unfortunately, the law (Section 2-65-70(a)) contains two sentences that are in conflict with one another as it relates to the Agency's financial well-being. One requires agencies to maximize the total allowable indirect costs on its federal grants, while another requires that all recoveries from indirect cost be remitted to the State's General Fund. If an agency complies with both, then it encounters a cash deficit for any administrative expenditures included in its indirect cost calculation that are expended from sources other than State Appropriations. The Agency is unable to remit indirect cost recoveries received to the general fund based on administrative expenditures incurred that were not appropriated (i.e. State Appropriations). Again, the Agency embarked on this method of calculating indirect cost only after full and thorough consultation with your staff.

Based on further discussions with your office, the Agency will be pursuing a permanent proviso in FY 1999 to allow us to retain recoveries of indirect costs on non-State Appropriated funds. When the proviso is approved, we will modify our indirect cost calculation to include non-State Appropriated funds.

Finally, we disagree that the Agency did not receive prior approval from the various federal grantors before actually charging this assessment. In fact, we included into each and every grant application a line item for this charge. This massive effort was required since we could not include these costs in our Indirect Cost Plan that the Governor's Office submits to our Federal Cognizant Agency.

Cash Management

The Agency concurs with the recommendation and will document its procedures regarding the proper processing of WIC rebate checks coupled with the cash draw. Detailed flowcharts were provided during the audit. These procedures will include, at a minimum, steps to ensure that the requirements of the Cash Management Improvement Act (CMIA) are met. These cash management procedures will be reviewed periodically and updated.

The WIC grant is very different than any other federal funds we receive. The award is broken into two distinct pieces: administration and food. The food draws are made on a daily basis, as well as administration, but the recording of these transactions are performed independently by both the Agency and the State Treasurer's Office. This has, on occasion, caused differences to occur between our books and the State Treasurer's. Since the State Treasurer's Office performs the year-end settlement of interest earned or owed with the federal agencies, as required with the CMIA, we felt that utilizing daily reports from their office when deciding what cash draws were needed was the best approach. If an error is made by the State Treasurer's Office in recording these independent transactions, then the delay could be as much as several months before a reconciliation identifies the mistake and correction needed brought to their attention.

Grant Accounting

We agree with the recommendation that any known adjustments between the grants for the WIC program be made timely. The current contract we have with the vendor for processing these "negotiable" food instruments does not report daily reimbursements by fiscal year issued. Many food instruments with an issue date prior to October are redeemed several months later. This causes new year funds to be drawn (which is the bulk of the food instruments being redeemed) to cover old year expenditures. Once the age of an unpaid negotiable instrument reaches approximately 90 to 120 days from its issue date, the vendor no longer redeems the food instrument and in essence refuses reimbursement. Only after this occurs, does the vendor supply the Agency with a report showing actual payments for food instruments issued during the grant period. After receiving this report, we are able to calculate the necessary entries (which only adjust expenditures from one grant period to another). We will attempt to include a stipulation in the next contract that requires the vendor to identify daily payments by fiscal year. This would prevent the need for any adjustments related to this issue.

Deposits

We agree with the recommendation to document existing procedures and policies. The Agency has already implemented corrective actions, based upon the advice received from the on-site auditors, to ensure that deposits are made timely.

We appreciate the professionalism of the auditors that conducted this review. Should you have any questions or need additional information, please contact Mr. John T. Watson of my staff at 734-5100.

Sincerely,

Douglas E. Bryant
Commissioner

Enclosure

cc: Lisa Waddell, MD, MPH, Assistant Commissioner
Douglas Calvert, Chief Operating Officer
John T. Watson, CPA, Director, Bureau of Finance
Mary I. Fuhrman, CPA, CIA, Director, Office of Internal Audits