

SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

COLUMBIA, SOUTH CAROLINA

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

JUNE 30, 2003

State of South Carolina



Office of the State Auditor

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June 28, 2004

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, 2003, 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,

A handwritten signature in blue ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

TABLE OF CONTENTS
JUNE 30, 2003

	Page
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1 - 4
ACCOUNTANT'S COMMENTS	
SECTION A – CURRENT YEAR FINDINGS	5 and 6
SECTION B – STATUS OF PRIOR FINDINGS	6
MANAGEMENT'S RESPONSE	Attachment A

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, 2003, 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:

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.



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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.
- 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. We found no exceptions as a result of the procedures.

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, 2003, 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 2003.

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, 2003, 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, 2003, 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, 2002, to determine if adequate corrective action has been taken.

Certain findings 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.

Rogers & Lalan, PA

June 24, 2004

ACCOUNTANT'S COMMENTS

SECTION A – CURRENT YEAR FINDINGS

1. CLOSING PACKAGE FOR CASH AND INVESTMENTS

Our testing disclosed that one of the bank account balances shown on the closing package did not agree with the actual balance per the Department's records. The Department reported the June, 2002 balance instead of the June, 2003 balance.

Section 3.1 of the GAAP Closing Procedures Manual requires that the agency to report the reconciled book balance.

We recommend the preparer and reviewer carefully review the cash and investment closing package amounts to ensure that the correct balances are reported.

2. CLOSING PACKAGE LIABILITY FOR COMPENSATED ABSENCES

The Department could not locate two leave request forms supporting one hour of leave taken by one of the 25 employees selected for testing.

Section 3.17 of the GAAP Closing Procedures Manual requires state agencies to keep all the supporting documentation for the schedule for compensated absences that includes the accumulated accrued unused annual leave earned by its employees which is the actual annual leave balance in the Department's records for each employee at June 30.

We recommend that the Department ensure that all leave slips are maintained to support the leave taken.

3. CLOSING PACKAGE FOR OPERATING LEASE LESSOR

Our testing of operating lease lessor closing package disclosed that the accumulated depreciation amount on operating lease lessor summary form in the closing package for those vehicles the Department leases to non-State parties did not agree with the supporting documentation. The accumulated depreciation for those leased vehicles was understated by approximately \$333,800 and total net carrying amount of those capital assets was overstated by the same amount.

Section 3.17 of the GAAP Closing Procedures Manual requires the State agencies use the same accumulated depreciation amount as in its capital assets closing package for each asset leased or held for lease.

We recommend the preparer and reviewer carefully review the operating lease lessor closing package amounts to ensure they are in agreement with the supporting documentation.

SECTION A – CURRENT YEAR FINDINGS – CONTINUED

4. CLOSING PACKAGE LIABILITY 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 that the Department was not including sales tax in the future minimum payments which results in an understatement of a future liability. We also noted the amount shown for one of the leases on the form did not agree with the lease agreement, which resulted in the future minimum lease payment overstated by approximately \$51,000; and that there was one lease which should not have been included in the noncancelable operating lease closing package because the payment was based on an amount per copy.

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 the schedule of future minimum lease payments include all applicable costs and that the amounts shown agree with the actual lease agreement. All contingent leases should be excluded from the noncancelable operating lease closing package.

5. EMPLOYER CONTRIBUTIONS CHARGED TO FUNDS INCORRECTLY

Our testing of the allocation of employer contributions between general, earmarked and federal funds disclosed that the Department was not allocating employer contributions correctly. The Department was allocating employer contributions based on the number of employees and not based on actual rates for each employee.

Generally accepted accounting principles require that the employer contributions charged to each fund be based on the actual cost attributable to employees paid from the fund.

We recommend that the Department charge employer contributions to each fund based on the actual costs for the associated employees.

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, 2002, and dated June 9, 2003. The prior report cited errors in the compensated absences and noncancelable operating leases closing packages. Findings for both of the areas are included in the current year's report.

MANAGEMENT'S RESPONSE

ATTACHMENT A



State of South Carolina
Department of Health and Human Services

Mark Sanford
Governor

Robert M. Kerr
Director

June 28, 2004

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

Dear Mr. Laban:

Thank you for providing a draft copy of 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, 2003.

We have reviewed the report, and we agree with your findings. As discussed in the exit conference, appropriate corrective action will be taken regarding the items in the Weaknesses Not Considered Material section of the report.

We appreciate the professional manner in which you and your staff conducted this engagement.

Sincerely,

A handwritten signature in blue ink, appearing to read "William L. Wells".

William L. Wells, CPA
Deputy Director

WLW/h