

**SOUTH CAROLINA
DEPARTMENT OF MENTAL HEALTH**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 3, 2003

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Department of Mental Health
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Mental Health, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2002, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these 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. 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 to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures is presented in Receipt Procedures and Remittance of Indirect Cost Recoveries 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; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if 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 to 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. We found no exceptions as a result of the procedures.
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 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 recorded payroll expenditures to those of the prior year; and comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual 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. Our finding as a result of these procedures is presented in Timekeeping in the Accountant's Comments section of this report.
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.


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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 controls over the tested transactions were adequate. The transactions 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, 2002, and tested selected reconciliations of balances in the Department's accounting records to those in 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 if 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 2002. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2001. We found no exceptions as a result of the procedures.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, 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; 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.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, 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; 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.

The Honorable Mark Sanford, Governor
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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 an opinion. Had we performed additional procedures, 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 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.



Thomas L. Wagner, Jr. CPA
State Auditor

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 internal controls. 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.

TIMEKEEPING

During our payroll testing we noted five errors related to timesheet retention and/or timekeeping mistakes. We noted three instances where timesheets could not be located. We noted one instance where an employee was underpaid and one instance where an employee was overpaid.

The Department keeps timesheets in storage. The timesheets in question could not be located. The area responsible for maintaining timesheets has lost timekeeping staff due to budget constraints and no one knew where the timesheets were filed. Therefore we were unable to confirm that pay for the employees was accurately calculated.

The Department's policies and procedures manual, section 7.10 states, "The signed time cards are filed with other payroll/timekeeping documentation and retained by the timekeeper for three years for audit purposes."

An employee was underpaid because the timekeeper did not properly input the employee's hours worked from their timecard to the time management system. The employee was underpaid \$95.41.

An employee was overpaid because the timekeeper entered the employee's hours worked incorrectly to the time management system. The employee was overpaid \$775.30.

The Department's policies and procedures manual, section 7.6 states that it is the supervisor's responsibility "to ensure that all time and attendance documents are completed accurately and timely. . ."

We recommend the Department implement policies and procedures to strengthen the controls surrounding their timekeeping system, such as a system of checks and balances for timekeeping to ensure accurate time reporting. The Department's timekeepers should be properly trained. The timekeepers' supervisors should review the work of the timekeepers prior to processing by the payroll division. With the materiality of personal service

expenditures of the Department, more attention should be focused on timekeeping. We also recommend the Department establish guidelines for filing documents, in order for them to be easily located.

RECEIPT PROCEDURES

During our testing of receipts we noted that the Admissions Office at a facility did not follow Department procedures regarding controls over receipts. According to personnel at the facility, when patients are admitted after normal business hours for overnight services any cash they have is secured by the Admission's Office personnel. The patient is issued a receipt by Admission's Office personnel who holds the cash overnight. The next morning the patient's cash is returned after the patient signs the copy of the receipt. The facility files the signed receipt to indicate that the cash was returned to the patient. This practice violates Department policy.

The Cash Operations section of the Department's Policy and Procedure Manual states:

Sometimes a receipt book holder other than a cashier, such as in the Admissions Office, issues an official receipt and turns in the monies to a cashier upon opening of the cashier office.

We recommend the Department ensure that facilities are aware of Cash Operation procedures to prevent the risk of theft or other misstatements. Effective internal controls require that procedures be in place to ensure accountability over all receipts.

REMITTANCE OF INDIRECT COST RECOVERIES

During our testing of revenue and receipts, we noted that the Department did not remit \$232,467 of indirect cost recoveries to the General Fund of the State, for the fiscal year ending June 30, 2002. The indirect costs weren't remitted because the Department did not have a grants accountant. This position handles all grant functions. The indirect costs were remitted in fiscal year 2003.

Section 2-65-70 of the South Carolina Code of Laws, as amended, states in part:

- (A) All agencies receiving federal grants or contracts shall recover the maximum allowable indirect costs on projects, subject to applicable federal laws and regulations. All indirect cost recoveries must be credited to the general fund of the State, . . .

We recommend the Department establish policies and procedures to ensure that indirect cost calculations are completed timely and the costs are remitted to the General Fund of the State in a timely manner.

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 the Independent Accountant's Report on Applying Agreed-Upon Procedures on the Department for the fiscal year ended June 30, 2000, and dated May 29, 2001. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2001. We determined that the Department has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE



MISSION STATEMENT

To support the recovery of people with mental illnesses.

August 5, 2003

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

With regard to timekeeping, current DMH policy requires timekeepers to maintain three years of records, within easy access, for review or audit ["in a secure, organized manner for three years." (Section 7.6, page 3)]. Additionally, we will add to this policy: **"Should a timekeeper's position be eliminated, the timekeeping records should be maintained by the newly assigned timekeeper. In the event that no new timekeeper is required, the records shall be maintained by the Administrative Office of the facility, center, or division for the required time period."** Current DMH policies also include procedures for correction of mistakes when such occur, such as the overpayments mentioned in the audit.

We agree that "more attention should be focused on timekeeping." Due to budget constraints, the position for the monitoring and on-going review of time and attendance functions agency-wide, was eliminated two years ago. That position also provided timekeeper and supervisor training in time and attendance on a regular basis. The loss of that position has lessened our ability to quickly identify errors and omissions, and to ensure timely corrections as well as to provide adequate training to timekeepers.

Also due to budget constraints, many areas have consolidated the timekeeping functions in most locations so that timekeeping is a full-time job. Employees from multiple locations and multiple shifts are covered by one timekeeper making it virtually impossible to obtain missing supervisory approval of timekeepers' data entry prior to payroll processing, and within the timeframe required by the CG's office. DMH policies and procedures contain adequate controls when properly implemented and supervised in all locations of the Department, and are of sufficient strength and contain the necessary checks and balances to ensure accurate time reporting.

As the DMH time/attendance process is highly manual and highly paper driven rather than automated by time clocks or other automated mechanisms, proper recording of time/attendance is the responsibility of supervisors to verify and ensure that the worker is on the job, and/or proper leave documents are submitted for time not worked. **Therefore, the integrity of the time/attendance function is dependent upon the supervisor discharging these assigned duties.**

With regard to receipt procedures, management of the facility involved has since changed and this procedure has been discontinued. This finding was discussed with the new facility management and they are aware of the implications of such a practice.

Finally, with regard to remittance of indirect cost recoveries, SCDMH employs one grants accountant who has oversight duties over a significant number of individual grants. Because the departments Grants Accountant accepted a position with another agency and the backup grants position was vacant due to budget cuts and staff reductions, Indirect Cost was not timely remitted for the quarter ending June 30, 2002. These remittances were made by August 2002. All required remittances have been made timely since that date.

If you have further questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kenneth D'Vant Long', written over a horizontal line.

Kenneth D'Vant Long,
Deputy Director, DoAS

KDL:bwm

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