

South Carolina Department of Mental Health

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2005

State of South Carolina



Office of the State Auditor

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June 28, 2006

The Honorable Mark Sanford, 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, 2005, was issued by Scott McElveen, L.L.P., 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 black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Board of Trustees and management of the South Carolina Department of Mental Health (the "Department") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the accounting records of the Department for the fiscal year ended June 30, 2005, 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 State Auditor. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system ("STARS") as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

2. Non-Payroll Disbursements and Expenditures

- We inspected 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 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 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 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 selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded 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 inspected 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 compared current year recorded payroll expenditures to those of the prior year; and compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared 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 were chosen randomly. We found no exceptions as a result of the procedures.

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

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, 2005, and inspected selected reconciliations of balances in the Department's accounting record 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 amount 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.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

7. Compliance

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of Department personnel and/or observation of Department 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 2005.

Our findings as a result of these procedures are presented in Section A in the Accountants' Comments section of this report.

8. Closing Packages

- We obtained copies of all purported closing packages as of and for the year ended June 30, 2005, 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.

We found no exceptions as a result of the procedures.

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2005, 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 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. Status of Prior Findings

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the report on the Department resulting from our engagement for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

Our findings as a result of these procedures are presented in Section B in the Accountants' Comments 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 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 Trustees, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
June 15, 2006

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

The procedures agreed to by the Department 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 internal controls. A material weakness is a condition in which the design or operation of one 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 below have been identified as weaknesses subject to correction or improvement and are considered material weaknesses and/or violations of State Laws, Rules, or Regulations.

Untimely Deposit of Receipts

From our receipts testing, it was revealed that two receipts out of the twenty-five tested for fiscal year 2005 were not deposited within seven days after receipt. These two receipts were received at the Coastal Empire Mental Health Center (the “Center”). From these circumstances, is a possibility of misappropriation and/or loss of receipts, and this is a violation of State Law. The condition is a result of the Center personnel not following prescribed policies and procedures.

We recommend that the Department develop and implement control procedures to strengthen internal controls over cash receipts and revenues to ensure that all receipts are deposited within seven days in accordance with State Law.

Reconciliations

Our testing of monthly reconciliations for receipts revealed that the Department had not performed any of the monthly reconciliations for fiscal year 2005 with regards to receipts. Preparation of reconciliations is required by the STARS manual in proviso 2.1.7.20.

Our testing of monthly reconciliations for general and earmarked expenditures revealed that only the reconciliation for month thirteen was prepared. This reconciliation was not signed off by the preparer or reviewer. Further, the differences found during the reconciliation process were not adequately explained.

Our testing of monthly reconciliations for cash revealed that four of the thirteen reconciliations were not prepared in a timely manner.

The staff and management of the Department have experienced difficulties working with the implementation of the new SAP accounting software. This has resulted in differences between the subsidiary ledgers and general ledger reports on a monthly basis. We recommend that the Department obtain the necessary reports and outside information technology assistance, in order to develop the proper reports within the accounting software, in order to successfully perform the monthly reconciliations.

SECTION A – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS – (continued)

Reconciliations – (continued)

Since implementation of the new SAP accounting software and throughout fiscal year 2005, the Department's management, along with the South Carolina Office of the Comptroller General, has recognized and continues to address the issues relating to the new software. See management's response to this comment on page 7.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of the corrective action taken on the findings reported in the Accountant's Comments Section of the prior year report on applying agreed upon procedures for the fiscal year ended June 30, 2004, and dated June 22, 2005. We determined that the Department has taken adequate corrective action on most of the prior year findings. With regards to the findings relating to untimely deposit of receipts and reconciliations, there are still instances where the procedures are in place but are not being properly followed. Therefore, these findings have been reported again for the current year procedures in Section A above.



South Carolina
Department of
Mental Health

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John J. Connery, MA.
Interim State Director of Mental Health

MISSION STATEMENT

To support the recovery of people with mental illnesses.

June 27, 2006

Scott McElveen, LLP
P. O. Box 8388
Columbia, SC 29202

Dear Madam/Sir:

This letter is in response to the audit report of Agreed-Upon Procedures for the year ended June 30, 2005. The headings shown below correspond to the same comment headings contained in your report.

Untimely Deposit of Receipts


Department of Mental Health policies have required timely deposit of cash receipts for many years. The timely deposits requirement is also taught in the DMH Cashier Training courses. We will again emphasize to DMH cashiers and administrators the need to timely deposit cash receipts. Training has been recently held in which the timely depositing of receipts was again emphasized.

Reconciliation's

We agree with the audit comment that the Department of Mental Health did not perform monthly reconciliation of revenues and expenditures as required by the Comptroller General's STARS manual. While the implementation of the new financial system (SAP) also occurred during this time period, the Comptroller General's Office and the State CIO was aware of the problems encountered in this area and actively assisted DMH in this endeavor. While locating and hiring of experienced staff to perform reconciliations has been most difficult, an individual has now been hired and is progressing with the preparation of reconciliations.

Reconciliations are necessary as each agency must reconcile their separate financial records with other similar but separate financial records maintained by the Comptroller General. It should be noted that when the Comptroller General begins utilizing the SAP financial system, many of the required reconciliations will no longer be necessary. Currently the South Carolina Enterprise Information System (SCEIS) is scheduled to "go live" for central government in Fiscal Year 2006-07, including DMH. Upon completion of this effort, DMH and the Comptroller General will be using the same financial data base, eliminating the necessity to perform many required reconciliations.

We will continue efforts to prepare reconciliations on a current basis.

Sincerely,

John D. Bourne, CPA
Director of Financial Services