

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

Columbia, South Carolina

**Independent Accountants' Report on
Applying Agreed – Upon Procedures
For the Year Ended June 30, 2013**

State of South Carolina



Office of the State Auditor

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June 4, 2014

The Honorable Nikki R. Haley, Governor
and
Members of the Board
South Carolina Department of Health
and Environmental Control
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Department of Health and Environmental Control for the fiscal year ended June 30, 2013, was issued by WebsterRogers, LLP, Certified Public Accountant, 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/trb

SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL
Columbia, South Carolina

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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 governing body and management of the South Carolina Department of Health and Environmental Control and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the South Carolina Department of Health and Environmental Control (the Department) for the fiscal year ended June 30, 2013, 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.

Our procedures and findings are as follows:

1. Cash Receipts and Revenues

- We inspected twenty-five recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected twenty-five recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We made inquiries of management pertaining to the Department's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Department personnel performing their duties to determine if they understood and followed the described policies.
- We compared current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure that revenue was classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels of \$36,000 in the general fund, \$750,000 in the earmarked fund, \$210,000 in the restricted fund, and \$1,200,000 in the federal funds and \pm ten percent.

The individual transactions selected were chosen judgmentally. Our finding as a result of these procedures is presented in Section A of the Accountants' Comments section of this report under the heading of "TRANSACTION PROCESSING – Condition 1".

2. Non-Payroll Disbursements and Expenditures

- We inspected twenty-five recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, 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.
- We inspected twenty-five recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure the expenditures were properly classified in the Department's accounting records. The scope was based on agreed upon materiality levels of \$510,000 for the general fund, \$750,000 for the earmarked fund, \$170,000 for the restricted fund, and \$1,200,000 for the federal funds and \pm ten percent.

The individual transactions selected were chosen judgmentally. Our findings as a result of these procedures are presented in Section A of the Accountants' Comments section of this report under the heading of "TRANSACTION PROCESSING – Conditions 2 and 3".

3. Payroll Disbursements and Expenditures

- We inspected twenty-five 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 processed in accordance with the Department's policies and procedures and State regulations.
- We inspected payroll transactions for twenty-five new employees and twenty-five who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Department's policies and procedures, that the employee's first and/or last pay check was properly calculated, and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the Department's accounting records. The scope was based on agreed upon materiality levels of \$510,000 for the general fund, \$750,000 for the earmarked fund, \$170,000 for the restricted fund, and \$1,200,000 for the federal fund and \pm ten percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions and computed 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. We investigated changes of \pm five percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

The individual transactions were chosen randomly. We found no exceptions as a result of our procedures.

4. Journal Entries, Operating Transfers, and Appropriation Transfers

- We inspected twenty-five recorded journal entries, twenty-four operating transfers, and twenty-five appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transaction was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the Department's policies and procedures and State regulations.

The transactions were chosen judgmentally. We found no exceptions as a result of our 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 selected entries were processed in accordance with the Department's policies and procedures and State regulations.

The transactions were chosen judgmentally. We found no exceptions as a result of our procedures.

6. Composite Reservoir Accounts

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2013, and inspected selected reconciliations of balances in the Department's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if accounts reconciled. 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 State Treasurer's Office monthly 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.

Cash Receipts and Revenues

- We inspected twenty-five recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations.
- We inspected twenty-five recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We obtained all monthly reconciliations prepared by the Department.

Non-Payroll Disbursements and Expenditures

- We inspected twenty-five recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, 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.
- We inspected twenty-five non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations and transactions selected were chosen judgmentally. Our finding as a result of these procedures is presented in Section B of the Accountants' Comments section of this report under the heading of "COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS".

7. Appropriation Act

- We inspected Department documents, observed processes, and/or made inquiries of Department personnel to determine the Department's compliance with Appropriation Act general and Department specific provisos.

We found no exceptions as a result of our procedures.

8. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Section A of the Accountants' Comments Section under the headings of "REPORTING PACKAGE – CASH AND INVESTMENTS" and "REPORTING PACKAGE – MISCELLANEOUS REVENUES".

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, 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 and if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of our procedures.

10. Status of Prior Findings

- We inquired about the status of the findings reported in the Accountant's Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures on the Department for the fiscal year ended June 30, 2011, to determine if the Department had taken corrective action. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2012.

Our findings as a result of our procedures are presented in Section B of the Accountant's Comments section of this report under the heading of "COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS".

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 elements, 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 governing body and management of the South Carolina Department of Health and Environmental Control, 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.



Columbia, South Carolina
May 21, 2014

ACCOUNTANTS' COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the Department require that we plan and perform the engagement to determine whether any noncompliance with State Laws, Rules or Regulations occurred.

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

REPORTING PACKAGES

CASH AND INVESTMENTS REPORTING PACKAGE

Condition:

We noted during our testing of the Cash and Investments Reporting Package the cash balance reported on the Cash Reporting Package was understated by approximately \$1,025,000.

Cause:

Monthly, DHEC receives a rebate from the Nestle Company for infant formula purchased by WIC participants during the preceding month. The rebate is deposited by wire into the WIC bank account and is invested in overnight repurchase agreements. The Department uses funds on deposit in the WIC bank account to pay WIC vouchers as they are presented instead of requesting reimbursement from the federal grantor. Once the balance in the WIC bank account has been depleted, DHEC will request reimbursement from the federal grantor. As of June 30, 2013, the amount of the June rebate from Nestle had not been fully expended, leaving a balance in the WIC bank account. The individual preparing the bank reconciliation for the WIC account was not aware of this balance in the account and did not include the rebate balance in the reconciliation.

Effect:

Failure to properly include the repurchase agreements in the WIC bank reconciliation resulted in the cash balance reported in the Cash Reporting Package being understated by approximately \$1,025,000.

Criteria:

An effective internal control system includes procedures designed to detect and correct errors.

Recommendation:

We recommend both the preparer and the reviewer become more knowledgeable of the makeup of the WIC bank account and to make sure all cash or cash equivalents in the account are properly accounted for.

MISCELLANEOUS REVENUES REPORTING PACKAGE

Condition:

We noted during our testing of the Miscellaneous Revenues Reporting Package the accounts receivable balance reported was understated by approximately \$2,470,300.

Cause:

Once a month, the Nestle Company wires a rebate to DHEC for infant formula purchased by WIC participants during the preceding month. DHEC invoices the Nestle Company once a month for this amount. An "informal" invoice is prepared rather than using Standard Invoice and Payment System (SIPS) normally used to bill and track the various invoices generated by DHEC.

Effect:

Failure to properly include the July 2013 invoice to Nestle for June 2013 purchases resulted in the accounts receivable balance reported in the Miscellaneous Revenues Package being understated by approximately \$2,470,300.

Criteria:

An effective internal control system includes procedures designed to detect and correct errors.

Recommendation:

We recommend the invoice for the WIC rebate be prepared in such a way that it can be properly tracked by the Accounts Receivable Director for DHEC so that the Miscellaneous Revenues Reporting Package might be accurately completed.

TRANSACTION PROCESSING

Condition 1:

As part of our procedures, we compared current year revenues at the subfund and account level to those of the prior year and investigated changes based on the materiality levels in Procedure One. The change in the account balance for account number 4360020002 in the earmarked fund exceeded the agreed-upon materiality levels indicating a potential overstatement of the account balance.

Cause:

A Medicaid cost settlement received from the Department of Mental Health on the last day of the fiscal year was incorrectly charged to account number 4360020002. The receipt did not include support documentation and the Department recorded the transaction in the wrong account.

Effect:

Account number 4360020002 was overstated by approximately \$2,112,300.

Criteria:

An effective internal control system includes procedures designed to detect and correct errors. Section 1.2 of the Comptroller General's Reporting Policies and Procedures Manual states that internal control procedures for managerial and external reporting should include evaluation of the results of transaction processing. Furthermore, the manual states in footnote two of page ten that a review of the general ledger balances should be performed to identify unexpected balances, the lack of balances when amounts are expected, larger than expected balances, or smaller than expected balances.

Recommendation:

We recommend the Department develop and implement procedures to ensure that revenue is recorded in the correct account.

Condition 2:

As part of our procedures, we compared current year expenditures at the subfund and account level to those of the prior year and investigated changes based on the materiality levels in Procedure Two. The change in the account balance for account number 5021540000 in the earmarked fund exceeded the agreed-upon materiality levels indicating a potential understatement of the account balance.

Cause:

An entry to reverse an IDT billing in the approximate amount of \$2,003,400 was erroneously recorded in the wrong account and the Department's internal controls did not detect the error.

Effect:

Account number 5021540000 was understated by approximately \$2,003,400.

Criteria:

An effective internal control system includes procedures designed to detect and correct errors. Section 1.2 of the Comptroller General's Reporting Policies and Procedures Manual states that internal control procedures for managerial and external reporting should include evaluation of the results of transaction processing. Furthermore, the manual states in footnote two of page ten that a review of the general ledger balances should be performed to identify unexpected balances, the lack of balances when amounts are expected, larger than expected balances, or smaller than expected balances.

Recommendation:

We recommend the Department develop and implement procedures to ensure that accounting transactions are recorded in the proper account.

Condition 3:

As part of our procedures, we compared current year expenditures at the subfund and account level to those of the prior year and investigated changes based on the materiality levels in Procedure Two. The change in the account balance for account number 5150030000 in the earmarked fund exceeded the agreed-upon materiality levels indicating a potential understatement in the account balance.

Cause:

The Department did not record electricity bills totaling approximately \$516,000 in account 5150030000.

Effect:

Account number 5150030000 was understated by approximately \$516,000.

Criteria:

An effective internal control system includes procedures designed to detect and correct errors. Section 1.2 of the Comptroller General's Reporting Policies and Procedures Manual states that internal control procedures for managerial and external reporting should include evaluation of the results of transaction processing. Furthermore, the manual states in footnote two of page ten that a review of the general ledger balances should be performed to identify unexpected balances, the lack of balances when amounts are expected, larger than expected balances, or smaller than expected balances.

Recommendation:

We recommend the Department develop and implement procedures to ensure that accounting transactions are recorded in the proper accounts.

SECTION B – OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State laws, rules or regulations.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

Condition:

During our testing of the composite reservoir bank reconciliations, we noted the WIC bank account at NBSC was not properly reconciled as of June 30, 2013.

Cause:

The amount of repurchase agreements was not included in the WIC bank reconciliation.

Effect:

Failure to properly include the repurchase agreements in the bank reconciliation resulted in the cash balance on the reconciliation being understated by approximately \$1,025,000.

Criteria:

An effective internal control system includes procedures designed to detect and correct errors.

Recommendation:

We recommend both the preparer and the reviewer become more knowledgeable of the makeup of the bank account and to make sure all cash or cash equivalents in the account are properly accounted for during the reconciliation process.

SECTION C – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the Department's corrective actions on the findings reported in the Accountant's Comment section on the Independent Accountants' Report on Applying Agreed-Upon Procedures on the Department for the fiscal year ended June 30, 2011, and dated June 28, 2012. We applied no procedures to the Department's accounting records and internal controls for the year ended June 30, 2012. The Department did not implement appropriate corrective action in the finding titled "Composite Reservoir Account Reconciliation". We have reported a similar finding in Section B of this report.



Catherine B. Templeton, Director

Promoting and protecting the health of the public and the environment

June 6, 2014

Mr. Louis C. Addison, Jr., CPA
Senior Manager
Webster Rogers, LLP
1411 Second Loop Road
PO Box 6289
Florence, S.C. 29505

Dear Mr. Addison:

The South Carolina Department of Health and Environmental Control (DHEC) has received a draft of the FY 13 Agreed Upon Procedures Review and offers the following response to the Accountants' Comments:

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

CASH AND INVESTMENTS REPORTING PACKAGE

Condition: We noted during our testing of the Cash and Investments Reporting Package the cash balance reported on the Cash Reporting Package was understated by approximately \$1,025,000.

Response: The Repurchase Agreement on the WIC bank account does not appear on the monthly bank statement but does appear on a separate statement that is mailed to a Bureau of Financial Management (BFM) employee that is not involved in the preparation of the Cash and Investments Reporting Package. For this reason, the employee that prepares the Cash and Investments Reporting Package was unaware of the existence of the Repurchase Agreement. DHEC concurs with the finding and will correct on the FY 14 Cash and Investments Reporting Package.

MISCELLANEOUS REVENUES REPORTING PACKAGE

Condition: We noted during our testing of the Miscellaneous Revenues Reporting Package the accounts receivable balance reported was understated by approximately \$2,470,300.

Mr. Louis C. Addison, Jr., CPA
June 6, 2014
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Response: The DHEC employee that prepares this Reporting Package was unaware of the existence of the WIC Rebate receivable. DHEC concurs with this finding and the FY 14 Reporting Package will include the WIC Rebate Receivable.

TRANSACTION PROCESSING

Condition 1: As part of our procedures, we compared current year revenues at the subfund and account level to those of the prior year and investigated changes based on the materiality levels in Procedure One. The change in the account balance for account number 4360020002 in the earmarked fund exceeded the agreed-upon materiality levels indicating a potential overstatement of the account balance.

Response: DHEC received a \$2,112,361.66 payment from the South Carolina Department of Health and Human Services (HHS) on June 28, 2013. This was the last day of FY 13. No supporting documentation came with this payment and BFM Accounts Receivable staff had no information on how to post this receipt. To ensure the payment posted in the correct fiscal year, BFM staff used a legacy spreadsheet to distribute revenue resulting in a portion being deposited to Medicaid Family Planning. Staff from BFM contacted HHS in FY 14 in an effort to determine the reason for the receipt. Documentation provided by HHS revealed this receipt was a Medicaid Cost Settlement payment from numerous cost reports dating back to FY 2006. DHEC had not received a cost settlement payment in several years and was unaware this payment was in route. The payment was posted based upon information available at that time to close the fiscal year.

Condition 2: As part of our procedures, we compared current year expenditures at the subfund and account level to those of the prior year and investigated changes based on the materiality levels in Procedure Two. The change in the account balances for account number 5021540000 in the earmarked fund exceeded the agreed-upon materiality levels indicating a potential understatement of the account balance.

Response: This finding was the result of attempts by DHEC to retire debt owed under the Master Lease Program for the SCEIS software. DHEC attempted to retire that debt at the end of FY 13 but the initial transaction was cancelled by the Comptroller General's Office. After numerous discussions between DHEC and the Comptroller General's Office, the payment was processed again but was inadvertently posted as a reduction of expenditures on one side of the transaction. DHEC staff reviewed general ledger balances at the end of FY 13 and did not identify this error until after FY 13 was closed. DHEC will make every effort to review the general ledger balances to identify possible incorrect transactions.

Mr. Louis C. Addison, Jr., CPA
June 6, 2014
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Condition 3: As part of our procedures, we compared current year expenditures at the subfund and account level to those of the prior year and investigated changes based on the materiality levels in Procedure Two. The change in the account balances for account number 5150030000 in the earmarked fund exceeded the agreed-upon materiality levels indicating a potential understatement in the account balance.

Response: This finding was related to two invoices received from the Budget & Control Board for additional utility charges on leased State buildings. These payments were posted to a Fixed Charges General Ledger account as a part of rental expense. The Comptroller General's Reporting Policies and Procedures Manual does not provide guidance on how this type of payment should be charged so agencies have historically posted this type of invoice to a Fixed Charge or Utility General Ledger account. Due to this ambiguity, a review of the General Ledger would have not resulted in recognition that there was a possible error. DHEC BFM staff contacted the Office of the Comptroller General for guidance on this issue and was informed that these invoices should be charged to a Utility General Ledger account. DHEC will comply with this guidance on all future similar invoices.

SECTION B: OTHER WEAKNESSES

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

Condition: During our testing of the composite reservoir bank reconciliations, we noted the WIC bank account at NBSC was not properly reconciled as of June 30, 2013.

Response: The Repurchase Agreement contained in the WIC bank account does not appear on the bank statement but does appear on a different statement that is mailed to a Bureau of Financial Management employee in a different department. The employee that prepares the reconciliations was unaware of the existence of the Repurchase Agreement. DHEC concurs with the finding and will include the Repurchase Agreement on future reconciliations.

If you have any further questions please contact J. Daniel Edens, CPA, Director of the Bureau of Financial Management at 803-898-3380 or edensjd@dhec.sc.gov.

Sincerely,



Barbara Derrick
Deputy Director for Administration