

South Carolina  
Department of Health and Environmental Control

Columbia, South Carolina

Independent Accountant's Report on

Applying Agreed-Upon Procedures

*for the year ended June 30, 2015*

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

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Mr. George L. Kennedy, III, CPA, State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Department of Health and Environmental Control ("DHEC") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of DHEC for the fiscal year ended June 30, 2015, in the areas addressed. DHEC'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 25 recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with DHEC's policies and procedures and State regulations.
- We inspected 25 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 compared current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the restricted, earmarked, and federal funds to ensure that revenue was classified properly in DHEC's accounting records. The scope was based on agreed upon materiality levels (\$210,000 – restricted, \$660,000 – earmarked fund, and \$900,000 – federal fund) and +/- 10 percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented as Accounts Receivable in the Accountant's Comments section of this report.

## **2. Non-Payroll Disbursements and Expenditures**

- We inspected 25 recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the DHEC's policies and procedures and State regulations, were bona fide disbursements of DHEC, and were paid in conformity with State laws and regulations and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 25 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, restricted, earmarked, and federal funds to ensure that expenditures were classified properly in DHEC's accounting records. The scope was based on agreed upon materiality levels (\$530,000 – general fund, \$210,000 – restricted, \$660,000 – earmarked fund, and \$900,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen haphazardly. We found no exceptions as a result of the procedures.

## **3. Payroll Disbursements and Expenditures**

- We inspected 25 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; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with DHEC's policies and procedures and State regulations.
- We inspected payroll transactions for 25 selected new employees and 25 individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with DHEC'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, restricted, earmarked, and federal funds to ensure that expenditures were classified properly in DHEC's accounting records. The scope was based on agreed upon materiality levels (\$530,000 – general fund, \$210,000 – restricted, \$660,000 – earmarked fund, and \$900,000 – federal fund) and +/- 10 percent.
- We 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. We investigated changes of +/- 10 percent to ensure that payroll expenditures were classified properly in DHEC's accounting records.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented as Payroll in the Accountant's Comments section of this report.

**4. Journal Entries, Operating Transfers, and Appropriation Transfers**

- We inspected 25 journal entries, 25 operating transfers, and 1 appropriation transfer to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation; the purpose of the transactions was documented and explained; the transactions were properly approved and were mathematically correct; and the transactions were processed in accordance with DHEC's policies and procedures and State regulations.

The individual transactions selected were chosen haphazardly. We found no exceptions as a result of the procedures.

**5. General Ledger and Subsidiary Ledgers**

- We inspected 25 selected entries and monthly totals in the subsidiary records of DHEC 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 agency's policies and procedures and State regulations.

The transactions selected were chosen haphazardly. We found no exceptions as a result of the procedures.

**6. Composite Reservoir Accounts**

*Reconciliations*

- We obtained all monthly reconciliations prepared by DHEC for the year ended June 30, 2015 for each of the 4 composite accounts maintained by DHEC. For each composite account, we inspected 2 monthly reconciliations of balances in DHEC's accounting records to those reflected in 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 DHEC'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 DHEC's accounting records.

*Cash Receipts and Revenues*

- We inspected 27 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected 27 selected 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 DHEC.

*Non-Payroll Disbursements and Expenditures*

- We inspected 36 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of DHEC and were paid in conformity with State laws and regulations; and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 36 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations and transactions were chosen haphazardly. We found no exceptions as a result of the procedures.

**7. Appropriation Act**

- We inspected DHEC documents, observed processes, and/or made inquiries of DHEC personnel to determine DHEC's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program and DHEC specific provisos.

We found no exceptions as a result of the procedures.

**8. Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, prepared by DHEC 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 finding as a result of these procedures is presented as Accounts Receivable 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, 2015, prepared by DHEC 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 the procedures.

**10. Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on DHEC resulting from the engagement for the fiscal year ended June 30, 2014, to determine if Agency had taken corrective action.

We found no exceptions as a result of the procedures.

Mr. George L. Kennedy, III, CPA, State Auditor  
South Carolina Office of the State Auditor  
August 8, 2016

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of DHEC has agreed that the following deficiencies will not be included in our Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 and of the governing body and management of DHEC and is not intended to be and should not be used by anyone other than these specified parties.

*Scott and Company LLC*

Columbia, South Carolina  
August 8, 2016

**ACCOUNTANT'S 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 agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

## **Finding 1: Payroll**

### **Condition:**

We inspected 25 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; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with DHEC's policies and procedures and State regulations. For one transaction tested, the employee received a \$2,475 benefit to be paid over one year in equal installments of \$103.12. The payments were approved to start in February 2014 and end in February 2015. However, the payments did not stop in February 2015 and were still occurring at the time the AUP procedures were performed in June 2016.

### **Cause:**

Due to employee oversight, DHEC did not properly cease the benefit payment of \$103.12 in February 2015.

### **Effect:**

DHEC overpaid an employee by approximately \$3,000.

### **Criteria:**

Section 8-11-30 of the South Carolina Code of Laws prohibits payment of salary not due.

### **Recommendation:**

We recommend DHEC improve procedures over payroll to ensure that changes in an employee's salary are timely and effectively implemented. Temporary salary changes should be scheduled to end at the proper time.

## **Section B – Other Weaknesses**

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

## **Finding 2: Accounts Receivable**

### **Condition:**

We inspected the accounts receivable reporting package to determine if the amounts reported agreed with the supporting detail and accounting records. At the time the reporting package was submitted, a detailed listing of accounts receivable was prepared. However, DHEC did not retain a hard copy of the detailed listing with the reporting package. At the time of fieldwork, the accounts receivable systems were unable to retrieve an open accounts receivable report as of June 30, 2015. As a result, we were unable to determine if the detail agreed to the reporting package.

We inspected 25 recorded receipts to determine if these receipts were recorded in the proper fiscal year. Two of the transactions we inspected related to receivables for fiscal year 2015, however, both of these transactions were posted to the South Carolina Enterprise Information System (“SCEIS”) in fiscal year 2016. Because the accounts receivable reporting package did not contain a detailed listing of accounts receivable, we were unable to determine if these two items were properly recorded in the accounts receivable reporting package in the correct year.

### **Cause:**

DHEC did not retain a hard copy of the detail of accounts receivable with the reporting package.

### **Effect:**

DHEC is unable to provide a detail of accounts receivable, and thus these amounts cannot be tested.

### **Criteria:**

Effective accounting policies and procedures require documentation to be maintained to support amounts reported on reporting packages.

### **Recommendation:**

We recommend that DHEC ensure detailed records are retained with all reporting packages so that this information is available for future reference should the need arise.

### **Section C – 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 State Auditor's Report on DHEC for the fiscal year ended June 30, 2014, and dated July 17, 2015. We determined that DHEC has taken adequate corrective action on each of the findings.

**MANAGEMENT'S RESPONSE**



Catherine E. Heigel, Director

*Promoting and protecting the health of the public and the environment*

August 8, 2016

Mr. George L. Kennedy, CPA  
State Auditor  
Office of the State Auditor  
1401 Main Street  
Suite 1200  
Columbia, S. C. 29201

Dear Mr. Kennedy,

The South Carolina Department of Health and Environmental Control (DHEC) has received a draft of the FY 15 Agreed Upon Procedures audit report and offers the following response to the Accountants' Comments:

**SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Condition: DHEC did not retain a hard copy of the accounts receivable detailed listing with the reporting package.

Response: DHEC concurs with this finding and will take the necessary steps to make sure a copy of the detailed listed is retained.

Condition: DHEC did not properly cease a time limited benefit payment (salary increase) and subsequently overpaid an employee.

Response: DHEC concurs with this finding and will implement the following: (1) Agency OHR staff will use the SCEIS HR PA40 functionality to post specific beginning and ending dates consistent with the employee's approved period of performance; and (2) Agency Payroll staff will implement a perpetual monitoring system to track all time limited adjustments and will coordinate the proper action to prevent future overpayments.

Please call me at 803-898-3390 if you have any further questions.

Sincerely,

Ronnie P. Belleggia, Director  
Bureau of Financial Management

tlw

cc: Catherine E. Heigel  
Kevin Guion  
Marcus Robinson  
BFM Division Directors