

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES*

For The Year Ended June 30, 2011

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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February 29, 2012

The Honorable Nikki R. Haley, Governor
and
Mr. Anthony E. Keck, 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, 2011, was issued by The Hobbs Group, P.A., 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

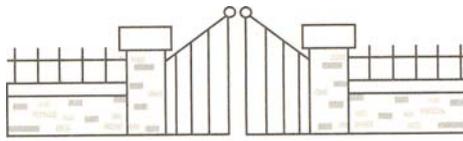
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COLUMBIA, SOUTH CAROLINA
For the Year Ended June 30, 2011

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

February 29, 2012

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

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of 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, 2011, 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. **Cash Receipts and Revenues**

- We inspected selected 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 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 compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the 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 (\$1,400,000 -earmarked fund, \$1,200,000 -restricted fund, and \$15,000,000 -federal fund) and ± 10 percent.

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The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Proper Cutoff of Receipts in the Accountants' Comments section of this report.

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 in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of South Carolina Department of Health and Human Services, 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 selected 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 major object code 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 (\$3,300,000 – general fund, \$1,200,000 – earmarked fund, \$1,000,000 – restricted fund, and \$15,000,000 – federal fund) and ± 10 percent.

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 processed in accordance with the Department's policies and procedures and State regulations.
- We inspected payroll transactions for selected new employees and those 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 employee's first and/or last paycheck 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 major object code 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 (\$3,300,000 – general fund, \$1,200,000 – earmarked fund, \$1,000,000 – restricted fund, and \$15,000,000 – federal fund) and ± 10 percent.

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- 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 ± 5 percent to ensure that payroll expenditures were classified properly in the Department's accounting records.

The individual transactions selected were chosen haphazardly. 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, 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 the Department's policies and procedures and State regulations.

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 weekly totals in the subsidiary records of South Carolina Department of Health and Human Services to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected weekly 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 selected were chosen randomly. We found no exceptions as a result of the procedures.

6. Reconciliations

- We obtained reconciliations prepared by the Department for the year ended June 30, 2011, and inspected selected reconciliations of balances in the Department's accounting records to those reflected in the State Treasurer's 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 State Treasurer's activity reports and statements, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made.

We found no exceptions as a result of the procedures.

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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 the procedures.

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2011, prepared by South Carolina Department of Health and Human Services 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 and if the amounts reported in the closing packages 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, 2011, prepared by South Carolina Department of Health and Human Services 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.

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 South Carolina Office of the State Auditor and the management of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA
Columbia, South Carolina

ACCOUNTANTS' COMMENTS

OTHER WEAKNESS

Management of each Department 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 violations of State Laws, Rules or Regulations occurred.

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

PROPER CUTOFF OF RECEIPTS

We inspected 35 receipt transactions to determine if receipts were properly recorded in the appropriate period. We noted one instance in which the Department failed to record revenue received on June 30, 2011 in the proper fiscal year. This resulted in an understatement of revenues for the fiscal year 2011 in the amount of \$52,911. The Department developed an internal cutoff policy for deposits in an effort to meet deadlines established by the State Treasurer's Office, and while the instance noted above was in accordance with this policy, the policy was not consistently applied to all deposits.

We recommend that the Department follow their existing procedures to ensure that amounts received are posted in the proper fiscal year.

MANAGEMENT'S RESPONSE
Attachment A



February 29, 2012

Ally Rivers
The Hobbs Group, P.A.
1704 Laurel Street
Columbia, South Carolina 29201

Dear Ms. Rivers:

The South Carolina Department of Health and Human Services (DHHS) offers the following response to the Proper Cutoff of Receipts finding:

Condition: The Hobbs Group inspected 35 receipt transactions to determine if receipts were properly recorded in the appropriate period. One instance was noted in which the Department failed to record revenue received on June 30, 2011 in the proper fiscal year. This resulted in an understatement of revenues for the fiscal year 2011 in the amount of \$52,911. The Department developed an internal cutoff policy for deposits in an effort to meet deadlines established by the State Treasurer's Office, and while the instance noted above was in accordance with this policy, the policy was not consistently applied to all deposits.

Recommendation: The Hobbs Group recommends that the Department follow their existing procedures to ensure that amounts received are posted in the proper fiscal year.

Response: Based on the current finding, the Department will review the internal year-end deposit policy with the appropriate staff to ensure all year-end policies and procedures are consistently applied to all receipts. Also, management and the cash receipt supervisor will closely monitor the daily cash logs along with the daily deposits to ensure all receipts are date stamped and deposited into the proper period in accordance to the department's policy.

Sincerely,

Kathryn L. Bass
Bureau Chief
Bureau of Fiscal Affairs