

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES*

June 30, 2015



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

February 2, 2016

The Honorable Nikki R. Haley, Governor
and
Mr. Christian Soura, 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, 2015, 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 blue ink that reads "George L. Kennedy, III". The signature is written in a cursive style.

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

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June 30, 2015

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

February 2, 2016

Mr. George L. Kennedy, CPA
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 the 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, 2015, 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 twenty-five 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 five 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 account 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 (\$3,400 – general fund, \$1,520,000 - earmarked fund, \$1,640,000 – restricted fund, and \$18,520,000 – federal fund) and ± 10 percent.

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

2. Non-Payroll Disbursements and Expenditures

- We inspected twenty-five 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 the 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 five 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 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 (\$4,800,000 – general fund, \$1,400,000 – earmarked fund, \$1,940,000 – restricted fund, and \$18,680,000 – 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 twenty-five 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 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-two selected new employees and twenty-one individuals 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 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 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 (\$4,800,000 – general fund, \$1,400,000 – earmarked fund, \$1,940,000 – restricted fund, and \$18,680,000 – 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 the Department's accounting records.

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 twenty-five selected recorded journal entries, six 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 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 five 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. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2015, and inspected six 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 fifteen 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 fifteen 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 the Department.

Non-Payroll Disbursements and Expenditures

- We inspected forty-eight 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 the Department, and were paid in conformity with State laws and regulations; if the acquired good and/or services were procured in accordance with applicable laws and regulations.
- We inspected forty-eight selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations selected were chosen randomly. The cash receipts and disbursement transactions were selected randomly. Our finding as a result of these procedures is presented in Composite Reservoir Account Reconciliations in the Accountants' Comments section of this report.

7. Appropriation Act

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Department's compliance with Appropriation Act general provisos, as listed in the Appropriation Act work program, and Department 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 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 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 in Reporting Packages in the Accountants' 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 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; 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 Accountants' Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the Department had taken correction action.

We found no exceptions as a result of the procedures.

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, 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

SECTION A – VIOLATION 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 conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

REPORTING PACKAGES

Compensated Absences Package:

In our review of the compensated absences reporting package we noted one instance out of twenty-five individuals tested in which the annual leave balance per the employee's leave statement did not agree to the annual leave balance from the Compensated Absence Report generated from South Carolina Enterprise Information System which was utilized to prepare the compensated absences reporting package. The employee's leave statement reported an annual leave balance of 29.44 hours while the Compensated Absence Report reported a leave balance of 41.19 hours. This error resulted in the compensated absences reporting package being overstated by \$315.

Section 1.8 Other Payroll Related Liabilities states "A Compensated Absence Report will be generated centrally with each Department's information distributed for review and identification of omissions and errors. Discrepancies in the liability amount resulting from funding sources, percentages, wage rates, or balance of hours should be reported along with omissions of employees on the Compensated Absences Summary Form."

We recommend that Department personnel responsible for completing and reviewing the reporting packages review instructions for completing the packages and compare the reporting package to the underlying working papers prior to submission to ensure the accuracy of the reporting package.

SECTION B – OTHER WEAKNESS

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.

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

We reviewed the reconciliation at year end and one other month during the year for each of the Department's composite reservoir accounts. During our review of these reconciliations, we noted three out of six reconciliations tested were not dated to determine if the reconciliation was prepared in a timely manner. A sound system of internal controls includes policies to ensure that errors are detected and timely corrected by management or employees in the normal course of performing their assigned functions. Preparation of a monthly reconciliation that is dated by the preparer and reviewer provides evidence of the existence of an internal control that is designed to detect errors in a timely manner.

We recommend the Department implement procedures to require all reconciliations to be dated by both the preparer and reviewer.

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 the Department for the fiscal year ended June 30, 2014, and dated February 11, 2015. We determined that the Department has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

Attachment A

February 12, 2016



The Hobbs Group, P.A.
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Nikki R. Haley GOVERNOR
Christian L. Saura DIRECTOR
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We have reviewed the audit findings for the Fiscal Year 2015 Agreed-Upon Procedures Audit for the South Carolina Department of Health & Human Services (DHHS), and offer the following response(s) for your consideration:

Section A – Violations of State Laws, Rules or Regulations

REPORTING PACKAGES

Recommendation: The Department personnel responsible for completing and reviewing the reporting packages review instructions for completing the packages and compare the reporting package to the underlying working papers prior to submission to ensure the accuracy of the reporting package.

Response: DHHS concurs with this recommendation. DHHS will continue its training efforts to build knowledge and application of the reporting package requirements.

Section B – Other Weakness

COMPOSITE RESERVOIR ACCOUNT RECONCILIATIONS

Recommendation: The Department should implement procedures to require all reconciliations to be dated by both the preparer and reviewer.

Response: DHHS concurs with this recommendation. Procedures have been implemented to require the preparer and reviewer date and sign the CLTC and returns bank account.

Sincerely,

A handwritten signature in black ink, appearing to read "Adriana Day".

Adriana Day, CPA
Deputy Director and CFO