

**SOUTH CAROLINA  
DEPARTMENT OF MENTAL HEALTH  
COLUMBIA, SOUTH CAROLINA  
STATE AUDITOR'S REPORT  
JUNE 30, 2015**

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South Carolina  
Office of the State Auditor

George L. Kennedy, III, CPA  
State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 29, 2016

The Honorable Nikki R. Haley, Governor  
and  
Members of the Commission  
South Carolina Department of Mental Health  
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 Mental Health (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 agency's policies and procedures and State regulations.
- We inspected twenty-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 general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$10,400 – general fund, \$942,900 – earmarked fund, \$8,700 – restricted fund, and \$75,400 – federal fund) and  $\pm 10$  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 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 goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected twenty-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 agency's accounting records. The scope was based on agreed upon materiality levels (\$875,800 – general fund, \$849,800 – earmarked fund, \$700 – restricted fund, and \$76,400 – federal fund) and  $\pm 10$  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; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected payroll transactions for twenty-five selected new employees and twenty-five individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency'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 and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$875,800 – general fund, \$849,800 – earmarked fund, and \$76,400 – federal fund) and  $\pm 10$  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  $\pm 10$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected twenty-five selected recorded journal entries, eight operating transfers, and 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 agency'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. **Composite Reservoir Accounts**

*Reconciliations*

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

*Non-Payroll Disbursements and Expenditures*

- We inspected twenty-five selected 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 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

6. **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 agency specific provisos, if applicable.

We found no exceptions as a result of the procedures.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, 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 Reporting Packages and Petty Cash in the Accountant's Comments section of this report.

8. **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 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 agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

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 the Department has agreed that the following deficiencies will not be included in the State Auditor's 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.

The Honorable Nikki R. Haley, Governor  
and  
Members of the Commission  
South Carolina Department of Mental Health  
June 29, 2016

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 the South Carolina Department of Mental Health and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

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

## **TERMINATION PAY**

### **Condition:**

We haphazardly selected twenty-five individuals who terminated employment during the fiscal year to test for proper termination payment. One of the twenty-five individuals tested was overpaid by approximately \$1,600.

### **Cause:**

Our testing of termination payments revealed several instances of delayed removal of individuals from the payroll system due to untimely communication from area offices. One of these instances led to the overpayment described above.

### **Effect:**

An individual received salary payment from the Department which was not due.

### **Criteria:**

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

### **Recommendation:**

We recommend the Department continue collection efforts for the overpayment and develop and implement procedures to ensure that individuals are removed from the payroll system in a timely manner to prevent overpayments.

### **Management's Response:**

Central office continually advises all CMHC's and DIS facilities to send terminations in no later than the employee's last day. When an overpayment is discovered we send the employee an overpayment letter requiring payment.

**Corrective Action:** HR-Payroll will send monthly reminders to ALL HR staff giving them a deadline to submit all terminations for the specified period in an effort to avoid any overpayments.

## **REPORTING PACKAGES**

### **Condition:**

Our testing of the Department's fiscal year ended June 30, 2015 reporting packages resulted in the following exceptions:

1. Payables for contract retentions reported on the Accounts Payable Reporting Package was misstated.
2. One of twenty-five employee leave balances selected for testing on the Department's Compensated Absences Report did not reflect the correct year-end liability.
3. Certain reconciliation items on the Operating Leases Summary Form – Lessee were misidentified contributing to the omission and/or potential omission of additional required lease information for financial reporting.

### **Cause:**

1. The amount of contract retentions paid, instead of the amount payable, was inadvertently reported as the payable on the reporting package.
2. Leave submissions for leave taken in the 2014-2015 fiscal year were completed after the date of the Compensated Absences Report and no adjustments to the liability were reported with the Subsequent Events Questionnaire.
3. Interpretation of reporting package instructions and Comptroller General's Office guidance, along with a lack of adequate additional supporting documentation contributed to the Operating Leases Reporting Package exceptions.

### **Effect:**

1. The Department's payable for contract retentions was understated by approximately \$365,000 for statewide financial reporting.
2. The liability for compensated absences was overstated by approximately \$450 as a result of the noted exception.
3. Contingent rents of the Department were not reported. Additionally, documentation was not adequate to support the exclusion of certain operating leases with lease terms exceeding one year, although it was explained by Department personnel that those leases were cancelable for financial reporting purposes.

### **Criteria:**

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely."

**Recommendation:**

We recommend the Department implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Policies and Procedures Manual and form instructions. We also recommend that annual assessments of operating leases identify specific reason for excluding from financial reporting both off and on the reporting package.

**Management's Response:**

1. Preparer and reviewer of this reporting package will ensure that the information included is accurate.
2. We will continue to notify all HR Reps and timekeepers to have ALL leave through 6/30 entered no later than the payroll processing deadline for 6/30. Due to the size and nature of our business, leave submissions after that date remain a challenge, however we will continue diligent efforts to minimize these occurrences.
3. We will report operating leases as required by the instructions in the Operating Leases Reporting Package.

## **PETTY CASH**

### **Condition:**

The Department's petty cash balance could not be reconciled to existing State Auditor petty cash authorizations. Additionally, the petty cash balance was reported on the Deposits With Banks Reporting Form of the Cash and Investments Reporting Package.

### **Cause:**

Although the Department has maintained a record of tracking and approving petty cash changes at its locations internally for several years, because changes have not been communicated to the State Auditor, unexplained differences between State Auditor authorized balances and agency petty cash balances exist. Misinterpretation of reporting package form requirements led to the reporting of petty cash on the Deposits With Banks Form.

### **Effect:**

Department petty cash on hand exceeds the State Auditor's petty cash authorization for the Department, including one Department petty cash account with no State Auditor authorization. Reporting petty cash on the Deposits With Banks Form increases risk of error in the statewide financial reporting compilation process.

### **Criteria:**

Section 20 of the Comptroller General's Disbursement Regulations specifies that agencies must obtain State Auditor approval for the establishment of all petty cash funds.

### **Recommendation:**

We recommend the Department implement procedures to ensure that State Auditor petty cash authorizations are obtained and match the petty cash on hand at the Department. In addition, the Department should ensure that Petty Cash is not reported on the Deposits With Banks Reporting Form during the reporting package process.

### **Management's Response:**

We have submitted a listing of Petty Cash Accounts to the State Auditor's Office for authorization. Petty Cash will not be reported on the Cash and Investment Reporting Package.

4 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$5.64. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.