

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

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 6, 2018

Mr. David Wilson, Acting Director
and
Members of the Board
South Carolina Department of Health
and Environmental Control
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Health and Environmental Control (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Committee's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

This report is intended solely for the information and use of the governing body and management of the South Carolina Department of Health and Environmental Control and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed - Upon Procedures Related to the South Carolina Department of Health and Environmental
Control (J04)**

Cash Receipts/Revenues

1. Compared current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtained and documented an understanding of variations for the following: General Fund: G/L Account 4520010000; Earmarked Fund: G/L Accounts 4536030000 and 4601010000; Restricted Fund: G/L Account 4890040000; and Federal Fund: G/L Account 4280020000.
2. Randomly selected twenty-five cash receipts transactions and inspected supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly selected twenty-five cash receipts and inspected supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compared current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtained and documented an understanding of variations for the following: General Fund: 502-,503-,511 and 518- accounts; Earmarked Fund: 502-, 503-, 511- and 517- accounts; Restricted Fund: 502-, 503-, and 517- accounts; and Federal Fund: 502-, 503-, 511- and 517- accounts.
5. Randomly selected twenty-five non-payroll disbursements and inspected supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures we inspected supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

Cash Disbursements/Non-Payroll Expenditures (Continued)

6. Randomly selected twenty-five non-payroll disbursements and inspected supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

7. Randomly selected twenty-five employees and inspected supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determined that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

8. Randomly select twenty-five bonus pay disbursements to determine:
 - Employee did not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
9. Haphazardly selected twenty-five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
10. Haphazardly selected twenty-five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
11. Compared the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtained an explanation of changes greater than 10%.
12. Computed the percentage distribution of fringe benefit expenditures by fund source and compared to the actual distribution of recorded personal service expenditures by fund source. Obtained an explanation of changes greater than 10%.

Finding

During our Inspection of Terminations, we identified one temporary employee that was not removed from the payroll system in accordance with Department policies and procedures.

Payroll (Continued)

Management's Response

DHEC agrees with this finding. The employee in question did not work for over a year and was not paid during that time. We were not informed by the supervisor in a timely manner. Our current policies and procedures have proven very effective and this specific issue is more of an aberration than a lack of internal control.

Journal Entries and Transfers

13. Randomly selected twenty-two journal entries and three transfers for the fiscal year to:
- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction was properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

14. Inspected the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
15. Confirmed compliance with the haphazardly selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Reporting Packages

16. Obtained copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspected the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
17. In addition to the procedure above, we performed the following:

- Cash and Investments Reporting Package

Determined if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or Department prepared records. In addition, determined if amounts agreed to State Treasurer's Office Composite Bank Account reports and year end reconciliations. Reconciled petty cash balance to the Office of the State Auditor's (OSA) petty cash authorization.

- Other Receivables Reporting Package

Haphazardly selected ten transactions to determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Accounts Receivable Current with Customer report and/or Department prepared records. Determined if responses are reasonable/accurate based on inspection of applicable supporting documentation.

Reporting Packages (Continued)

- Inventory Reporting Package

Determined if reported amounts agree to the SCEIS Yearend Reporting - Inventory report. In addition, determined if the Department's reconciliation of physical inventory to SCEIS was properly completed by agreeing haphazardly selected amounts to the SCEIS general ledger and/or Department prepared records.

- Operating Leases Reporting Package

Determined if reported amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determined if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (Other Adjustments); and (3) the effective dates, current expense, and future minimum lease payments of all operating leases.

- Accounts Payable

Haphazardly selected ten payables to determine if amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor report and/or Department prepared records.

- Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package

Determined if responses and amounts are reasonable/accurate based on inspection of invoices and/or contractual agreements.

- Subsequent Events Questionnaire

Determined if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly selected five payables from the Subsequent Events Accounts Payable Worksheet and determined if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Findings

Cash and Investments Reporting Package

The Department was unable to provide authorizations for thirteen petty cash accounts reported on its 6/30/17 listing. Also, the Department was unable to provide supporting documentation to confirm that sixteen petty cash accounts had been closed. Additionally, we were unable to reconcile the petty cash balance recorded in SCEIS to OSA authorizations.

Cash and Investments Reporting Package (Continued)

Management's Response

DHEC does not agree with this finding. DHEC was not given sufficient time to pull the information that was requested. Upon receipt of this request we informed OSA that it would take some time to pull the records due to the following reasons: Some of the records being requested date back over twenty years and were recorded using the chart of account that was in existence at that time. Over that period the Agency has had three different charts of accounts and has reorganized four times. The presentation of this data takes a considerable amount of labor. The authorizations will be gathered and formatted to match the current chart of accounts and organizational structure.

Operating Lease Reporting Package

Finding

During our inspection of the Operating Lease Future Minimum Payment Schedule, we observed that the Palmetto Railways (a state agency) lease related to State owned property and therefore should not have been reported. As a result, the Department's current operating lease expense was overstated by \$519,624 and the future minimum payments were overstated by \$2,744,905.

Management's Response

DHEC agrees with this finding. DHEC did not recognize Palmetto Railways as a state agency due to the following: Their EIN number is not consistent with state agencies and their SCEIS vendor number is not consistent with state agencies. Palmetto Railways will be removed from our future reporting.

Finding

During our inspection of operating lease payments, we observed a lease was renewed in April 2017. However, only the current expense related to the new lease was reported on the Operating Leases Future Minimum Payment Schedule. As a result, reported current expense was understated by \$127,693.

Management's Response

DHEC agrees with this finding. Previous leases will be reviewed when a new lease begins.

Finding

While inspecting one haphazardly selected invoice, we determined that this lease payment should have been reported as an operating lease with future minimum lease payments instead of as an other adjustment. As a result, current expense was understated by \$8,000, future minimum lease payments were understated by \$40,000, and other adjustments were overstated by \$8,000.

Management's Response

DHEC agrees with this finding. A storage unit was inadvertently omitted. Staff have been instructed to make sure all details tie back to the control totals used in the exercise.

Operating Lease Reporting Package (Continued)

Finding

The Department reported future minimum payments for fiscal year 2019 for a lease that ended in fiscal year 2018. As a result, future minimum lease payments were overstated by \$2,444.

Management's Response

DHEC agrees with this finding. The calculations were made on the basis of 12 monthly payments when in reality this lease provided for one payment a year. All leases with one annual payment will be reviewed more carefully to avoid this same mistake in the future.

Subsequent Events Questionnaire

Finding

Question #14 on the Subsequent Events Questionnaire asks if agencies have identified any late submissions of leave. The Department answered no to this question. We compared balances reported on the CG's Compensated Absence Report as of June 30, 2017 to balances reported in SCEIS and identified a total variance of \$56,000 as a result of late submissions of leave. Therefore, the Department should have responded yes to question #14 and the Department should have reported adjustments of leave to the CG.

Management's Response

DHEC agrees with this finding. DHEC will implement the necessary fiscal year end closeout procedures to address submission of leave.

Finding

Question #17 on the Subsequent Event Questionnaire asks if agencies have identified any IDT's (unpaid) and/or disbursement vouchers to another agency within the State's financial reporting that were previously excluded from reporting. The Department answered no to this question. We observed the SCEIS BW "Yearend Rptg - Inter-Agency Prior Year Payables with Vendor" Report and identified a payment of \$156,292 to a state agency for services rendered in fiscal year 2017. The Department did not submit an Interfund Payables Reporting Package; therefore, the Department should have responded yes to question #17 and should have reported the payment of this IDT to the CG.

Management's Response

DHEC agrees with this finding. We will adjust our operating procedures to specifically address the IDT Doc list when pulling prior year payables.

Finding

We compared payables reported on the Subsequent Events Accounts Payable Worksheet to payables reported on various SCEIS Business Warehouse reports and identified \$84,121 of prior year payables that should have been reported on the Accounts Payable Reporting Package. We also observed that these payables were not subsequently reported on the Subsequent Event Questionnaire.

Subsequent Events Questionnaire (Continued)

Management's Response

DHEC agrees with this finding. We have determined the error was the result of a gap in the dates used to generate the report. We will adjust our procedures to assure all dates for reports are contiguous.

Capital Assets

18. Haphazardly selected five capital assets from current year acquisitions and determined if the assets were properly coded and classified in the accounting system.
19. Haphazardly selected five capital asset retirements and determined if assets were properly coded and classified in the accounting system. Additionally, determined that retired assets were properly disposed in accordance with applicable State regulations.

We found no exceptions as a result of the procedures.

Composite Reservoir Accounts

20. Obtained fiscal year monthly reconciliations for the WIC composite reservoir accounts and for three of the reconciliations, performed the following procedures:
 - Determined the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct.
 - Agreed applicable amounts from reconciliations to the general ledger.
 - Agreed applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determined if reconciling differences were adequately explained and properly resolved.
 - Determined if necessary adjusting entries were made in the accounting records.
21. Inspected twenty-five composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
22. Inspected twenty-five composite reservoir account 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Minutes

23. We inspected the Board's approved minutes beginning with July 1, 2016 through the end of our fieldwork.

We found no other matters related to our procedures.

Internal Audit Reports

24. We inspected the Department's internal audit reports beginning with July 1, 2016 through the end of our fieldwork.

Through inquiry with Department personnel, no internal audit reports were prepared from July 1, 2016 through the end of our fieldwork.

Status of Prior Findings

25. Through inquiry and inspection, determined if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Department has taken adequate corrective action on each of the findings.